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„Will Public Administration and Decentralization
in Japan Benefit from Continuous Reforms?“

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List of Abbreviations

ADF	Agency-Delegated Function
AMC	Agency of Management and Coordination
ARC	Administrative Reform Council
CEFP	Council of Economic and Fiscal Policy
CLAIR	Council of Local Authorities for International Relations
DP	Democratic Party
DPC	Decentralization Promotion Committee
DPJ	Democratic Party of Japan
DPP	Decentralization Promotion Plan
FILP	Fiscal Investment and Loan Program
FY	Fiscal Year
GA	Government-Affiliated
GDP	Gross Domestic Product
GPEA	Government Policy Evaluation Act
GPRA	Government Performance and Results Act
ICT	Information and Communications Technology
IT	Information Technology
IHA	Imperial Household Agency
JAL	Japan Airlines
JDP	Japan Democratic Party
JLP	Japan Labor Party
JNR	Japan National Railways
JNRSC	Japan National Railways Settlement Corporation
JNRSH	Japan National Railways Settlement Headquarters
JSP	Japan Socialist Party
JR	Japan Rails
JRP	Japan Renewal Party
LAT	Local Allocation Tax
LDP	Liberal Democratic Party

MF	Wide Area Federations of Municipalities
MIC	Ministry of Internal Affairs and Communications
MTM	Market-Type Mechanism
MoF	Ministry of Finance
MoT	Ministry of Transport
MPHPT	Ministry of Public Management, Home Affairs, Post and Telecommunications
NPM	New Public Management
OECD	Organisation for Economic Co-operation and Development
PCPAR	Provisional Committee on the Promotion of Administrative Reform
PE	Policy Evaluation
PEC	Pre-Electoral Coalition
PM	Prime Minister
SDPJ	Social Democratic Party Japan
UN	United Nations

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1. Introduction

In December 2008 the Japanese economy was described as having “already entered a recession phase”, with declining exports, production rates and corporate profits and rising bankruptcy numbers (Cabinet Office 2008: 1). Japan is still to recover entirely from the burst of the economic bubble in the late 1980s and the early 1990s, and the subsequent, so-called “lost decade”. In addition to the long lasting economic problems Japan is also facing a growing number of issues within its society like declining birth rates, the ageing population and phenomena like *NEET*, *freeter*, and *hikikomori*¹. How is the Japanese government dealing with changing demands and requirements? Economic problems and social issues necessitate partly fundamental changes that have to be implemented by the government as soon as possible. Several initiatives have been taken, some of which are described in this thesis.

The government committed itself to promote its economic and fiscal policies in three stages in order to safeguard people’s quality of life and economic soundness. In the short-run “economic recovery” is envisaged, the medium term goal is to achieve “fiscal consolidation”, and the medium- to long-term optimum is to realize “economic growth through reforms” (ibid.). In addition, the government announced to review its measures and expenditures and to modify unreasonable expenses. As part of the mid-term program, the government reiterated its intention to reform its administration in terms of sustainable cost sharing and balance of costs and benefits (ibid.: 2f.). The government plans to “abolish what should be abolished and reform what should be reformed” in order to fulfil the expectations the public has of it (ibid.: 4). It is clear that the public sector and its functions need to be improved to be able to support the economic and financial recovery, and thus help to tackle various problems in the Japanese society. Japan has seen a series of, more or less successful, reform attempts. Especially administrative reform efforts seem to have left barely more than disappointment (Campbell 2001: 111ff.). The purpose of this thesis is to evaluate the impacts of and benefits from the continuous reform endeavours in the past decades for the public management and decentralization. The title of this thesis coincides with the main research

¹ The acronym NEET stands for ‘not in employment, education or training’ and describes people who either want to work but do not want to look for a job, or do not want to work at all. *Freeter* on the other hand are not interested in the traditional career path, but rather get around with part-time jobs. The number of *freeter* has more than doubled from roughly 1 million in 1992 to over 2 million in 2005 (Genda 2007: 23). *Hikikomori* is a phenomenon characterized by the refusal of all social contact and the withdrawal from society (Suwa and Hara 2007: 94).

question. The results are obtained through an extensive literature research and the analysis of data provided by several Japanese ministries, the Statistics Bureau and international organizations like the OECD and the United Nations.

The following chapter shows the basic structure of the public sector in Japan and indicates some of its specific characteristics. The general structure of the Japanese government is described and the diverse functions and responsibilities at different levels of government are specified. The size of the government in Japan is analysed and compared to relevant OECD data. The Japanese government has taken several steps towards a smaller government in recent years. An overview of public sector reforms is given at the beginning of chapter 3, leading to the New Public Management movement and its implementation in Japan. The most recent measures of administrative reform in Japan are presented, and a description of two important, exemplary privatizations is given: the privatization of Japan National Railways in the 1980s and the privatization of the Japan Post in the last decade. The chapter closes with two initiatives towards a small government and the e-government trend. The fourth chapter deals with local governments and how they have tried to gain power and expand their fields of competences especially in the past two decades. The last chapter summarizes the main findings and gives an outlook on future challenges and research fields.

2. Government Structure

Japan is a constitutional monarchy with a parliamentary government. The government organs and their respective duties and responsibilities are stipulated in the constitution, which was put into effect May 3, 1947. A powerful central government and the subordinated levels of prefectures, municipalities and certain hybrid forms (presented in chapter 2.5.) characterize the vertical government structure in Japan. First, the organs and features on the national level and the size of government are described, followed by an overview of the two-tiered local government including the hybrid entities. The intergovernmental financial relations and the problematic nature of public debt are covered at the end of this chapter.

2.1. *The Emperor (天皇 *tennō*)*

With the enactment of the new constitution the Emperor lost most of his status. Article 1 clearly states the new division of roles: the Emperor is “the symbol of the State and the unity of people”, he has no power related to government (Hayes 2005: 294). The sovereign power, by contrast, resides with the people. The Emperor still has duties, like the appointment of the Prime Minister as designated by the Diet (Article 6). Advised and approved by the Cabinet, he is to perform 10 acts listed in Article 7, including the “promulgation of amendments of the constitution, laws, cabinet orders and treaties”, “the convocation of the Diet”, or the “dissolution of the House of Representatives” (ibid.: 294). But usually he only represents Japan, meets foreign ambassadors or ministers, and performs ceremonial functions (ibid.: 295.). The expenses for the Imperial Family and the Imperial Household Agency (IHA) are partly determined by law, amounting to 16,44 billion Yen² (about 150 million Euro or 200 million US Dollar) in Fiscal Year³ (FY) 2012, allowances for Imperial Family members not included (The Imperial Household Agency 2012). Due to the fact that the Imperial Family is financed through public funds to some extent and the few functions exercised by the Emperor and the Imperial Family, there is an ongoing controversy whether the monarchy still has a right to exist or not. Despite this debate it is not to be expected that

² Except where noted otherwise values labelled with FY are converted with the exchange rates of April 1 (or the nearest available exchange rate) of the relevant year, and are based on the exchange rates retrieved from Bloomberg (2012a and 2012b).

³ The Fiscal Year in Japan starts with April 1 and ends on March 31.

the Imperial Family will cease to exist as the Emperor is and will be an emotional anchor for many Japanese in times of crisis, as for example the triple disaster in March 2011 has shown.

2.2. Central Government

Japan has a unitary government with a certain degree of decentralisation. A division of power in the horizontal structure characterizes the government system in Japan, as in many other countries. Figure 1 shows the three branches of the Japanese government: the Diet (Legislative), the Cabinet (Executive) and the Courts (Judicial). For the sake of completeness all three divisions are described below. The focus however lies on the description of the Cabinet and the Prime Minister.

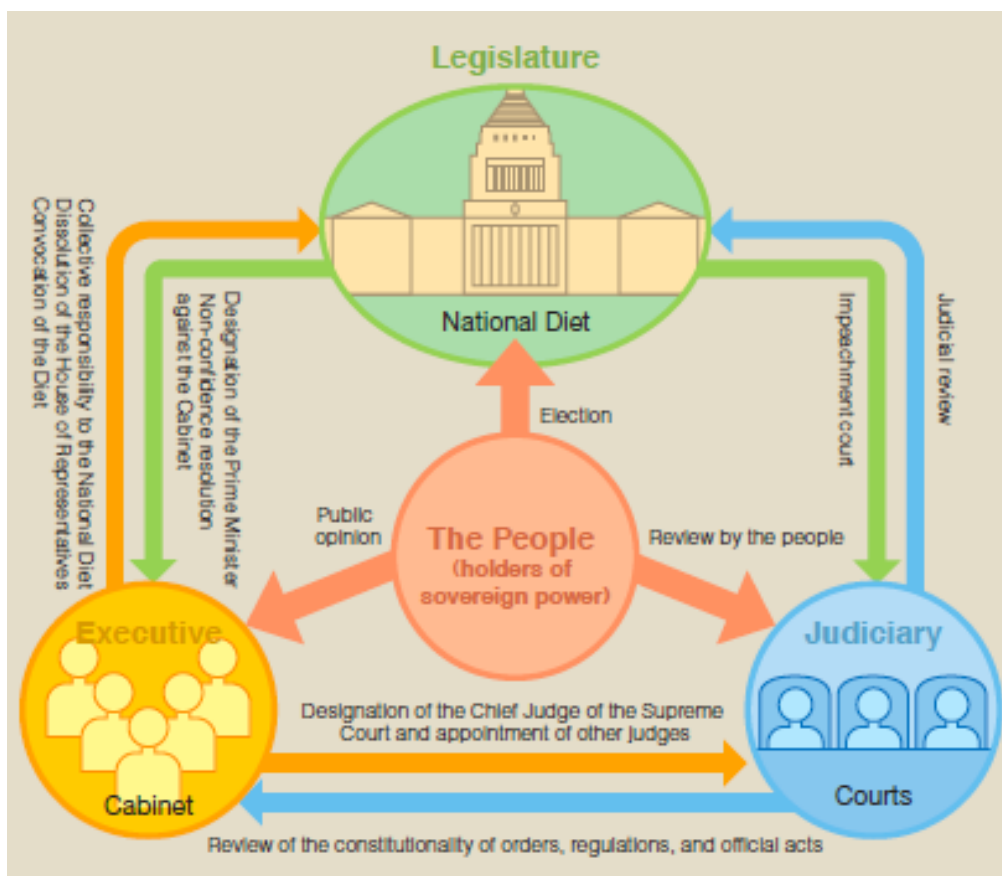


Figure 1: Division of Power - Government Branches in Japan

Source: The Secretariat of the House of Representatives 2010

Although the division of power is embedded in the constitution, the borders often seem to be blurred. While this is a highly interesting issue, common to many countries, it cannot be sufficiently addressed to in this paper. For further details see, for example, Itoh 2010: 248.

2.2.1. The Diet (国会 *kokkai*)

The Diet is defined as the highest state power institution and the only legislative body. The bicameral parliament consists of the House of Representatives (衆議院 *shūgiin*) and the House of Councillors (参議院 *sangiin*) (Hayes 2005: 300). Japanese citizens who are at least 20 years of age have the right to elect the members of both houses (The Secretariat of the House of Representatives 2010: 11).

The House of Representatives – the Lower House – consists of 480 Members with elections taking place every four years. The election system combines two approaches: the single-seat constituencies and the proportional representation, whereby 300 and 180 members are elected, respectively (ibid.: 11). The House of Councillors – the Upper House – counts 242 Members with an office term of six years. Half of the members are elected every three years. In total, 146 members are elected by plural-seat prefectural constituencies, whereas 96 are elected by the proportional representation (ibid.: 11). The two houses together wield the powers vested in the Diet by enacting laws, deciding over national finances, or designating the Prime Minister (ibid.: 12). Ackerman (2000: 635) observes that power is unequally distributed between the Lower and the Upper House, with the latter playing a significant but not the “dominant role“, which is why he calls it the “one-and-a-half house solution”.

Hayes points out that the *kokkai* is not as independent as for example the United States Congress. He also claims that Japan lacks the system of checks and balances, although officially the opposite is argued. In fact the legislature, the cabinet and the bureaucracy would share the power. The role of the Diet is not decisive when it comes to initiating and refining public policy. Quite the contrary, „for all practical purposes it is limited to merely ‘rubber-stamping’ decisions made elsewhere (Hayes 2005: 48).

2.2.2. The Cabinet (内閣 *naikaku*)

Chapter V (Articles 65 – 75) of the constitution provides for the rules concerning the cabinet. Article 65 defines it as the executive branch. It consists of the prime minister as its head and other ministers of state, who must all be civilians, and is responsible to the diet as stated in Article 66. The number of ministers is not clearly determined in the constitution, but in the Cabinet Law which was enacted in 2001. Article 2 (2) limits the “Minister of State” to “not more than fourteen”, with the exception of “special circumstances” allowing for an increase to seventeen (Cabinet Secretariat 2007). Functions to be performed by the cabinet “in addition to

other general administrative functions” are provided in Article 73. The list of duties includes faithfully administering the law, conducting affairs of state, managing foreign affairs, concluding treaties, administering the civil service, preparing and presenting the budget to the Diet, enacting Cabinet orders and deciding on amnesty (Hayes 2005: 303ff.).

2.2.3. The Prime Minister (内閣総理大臣 *naikaku sōri daijin*)

The prime minister (PM), as head of government, has to be civilian. He is “designated from among the members of the Diet by a resolution of the Diet” (Article 67). He appoints and removes the ministers of state (Article 68). Furthermore he “submits bills, reports on general national affairs and foreign relations to the Diet and exercises control and supervision over various administrative branches” (Article 72).

Since 1945 until July 2012 Japan has seen 34 PMs, during the same period there have been 14 PMs in the UK and 12 presidents in the USA (Cabinet Secretariat 2012a, The British Prime Minister’s Office 2012, The White House 2012)⁴. Table 1 shows a list of the post war PMs and the length of their respective terms in office in days as well as their party membership. There are remarkable differences in the length of prime ministerial tenure, ranging from only 54 days (Higashikuni in 1945) to 2.798 days (Satō 1968-1972). The average time in office amounted to 709 days, i.e. roughly two years⁵. There are a few notable PMs such as Yoshida, Satō, Nakasone and Koizumi who have served for longer than average. The majority of the past PMs have been in office for less than the average. With a regular tenure of four years there should only have been 16 PMs, in fact there have been 33 changes in this position since the end of World War II.

Table 1: Prime Ministers of Japan (1945-2011)

Name of PM	In office from	Days in office	Party
Higashikuni	Aug. 17, 1945	54	
Shidehara	Oct. 9, 1945	226	
Yoshida	May 22, 1946	368	JLP

⁴ Prime ministers with separate terms are counted according to the number of their non-consecutive administrations, i.e. Yoshida Shigeru and Harold Wilson are counted twice.

⁵ The incumbent PM Noda has not been taken into account in the calculation.

Name of PM	In office from	Days in office	Party
Katayama	May 24, 1947	292	JSP
Ashida	Mar. 10, 1948	220	DP
Yoshida	Oct. 15, 1948	2 251	DLP/LP
Hatoyama	Dec. 10, 1954	745	JDP/LDP
Ishibashi	Dec. 23, 1956	65	LDP
Kishi	Feb. 25, 1957	1 241	LDP
Ikeda	July 19, 1960	1 575	LDP
Satō	Nov. 9, 1964	2 798	LDP
Tanaka	July 7, 1972	886	LDP
Miki	Dec. 9, 1974	747	LDP
Fukuda	Dec. 24, 1976	714	LDP
Ōhira	Dec. 7, 1978	554	LDP
Suzuki	July 17, 1980	864	LDP
Nakasone	Nov. 27, 1982	1.806	LDP
Takeshita	Nov. 6, 1987	576	LDP
Uno	June 3, 1989	69	LDP
Kaifu	Aug. 10, 1989	818	LDP
Miyazawa	Nov. 5, 1991	644	LDP
Hosokawa	Aug. 9, 1993	263	JNP
Hata	April 28, 1994	64	JRP
Murayama	June 30, 1994	561	SDPJ
Hashimoto	Jan. 11, 1996	932	LDP
Obuchi	July 30, 1998	616	LDP
Mori	April 5, 2000	387	LDP
Koizumi	April 26, 2001	1.980	LDP
Abe	Sep. 26, 2006	366	LDP
Fukuda	Sep. 26, 2007	364	LDP
Asō	Sep. 24, 2008	357	LDP
Hatoyama	Sep. 16, 2009	265	DPJ
Kan	June 8, 2010	451	DPJ
Noda	Sep. 2, 2011		DPJ

Sources: adapted from Cabinet Secretariat 2012a, McCargo, 2004: 95

It is commonly agreed on, that one of the major reasons for the high fluctuation rate in this powerful political position lies within the structure of the Japanese political parties, namely the factions (*habatsu*) within the parties. Especially the Liberal Democratic Party (LDP), which has been in power over decades, is known for its strong factional structure⁶. Although officially not existing since their abolishment in 1994 (Derichs 2003: 169) according to Neary (2002: 110)

“[m]ost LDP members of parliament belong to one of five or six factions, each of which at any one time will have between 40 and 100 members. The leader of the LDP will usually be the leader of one of the largest factions and have the support of two or more, such that he can command a majority in his party.”

As Derichs (2003: 169) points out the head of government has to consider the power relations within his party, especially when nominating his cabinet. As he is dependent on the support of the factions he cannot choose the ministers of state solely with regards to their professional competences. Derichs also points out that the demand for leadership competences of top-ranking politicians is repeatedly expressed. As a reaction, the functions of the PM and the cabinet have been beefed up. Consequently it is now possible for the PM to contribute more actively to the policy formulation by presenting policy proposals to the cabinet. The question remains unanswered if the PM now has enough room for action in order to win out over the traditionally strong bureaucracy and the “old guard” in his own party (Derichs 2003: 169f.).

Pre-electoral coalitions (PEC) did not play a significant role in the political system as it was dominated by the LDP for decades. A list of elections in Japan from 1946 to 2002 indicates only one election (in 1993) where PEC was observed (Golder 2006: 161). In this case the government was formed by two PECs.

2.2.4. The Courts (裁判所 *saibansho*)

Judicial Power is given to the Supreme Courts as laid down in Article 76 of the constitution. The establishment of subordinated courts by law and the prohibition to give any “final judicial power” to the Executive is also regulated there (Hayes 2005: 305). The Supreme Court Grand

⁶ For further details concerning the factional system and the nature of the LDP see for example Neary, 2002: 67ff., 100ff.; McCargo, 2004: 94, 113ff. or Stockwin, 2003: 89f., 148ff.

Bench involves fifteen justices, including the chief justice appointed by the emperor. The cabinet recommends the chief justice and appoints the fourteen remaining judges. The Petty Bench consists of only five judges and deals with routine review cases other than constitutional issues, which are left to the Grand Bench (ibid.: 63). The next level comprises eight High Courts according to the regions of Japan⁷. The District Courts (through more than 200 branches) operate on the third level with about one in every prefecture, except for Hokkaidō with four. Summary Courts work on the lowest level with judges comparable to the “American justices of the peace” (ibid.: 64). Family Courts are structurally found on the same level as the District Courts, dealing with “domestic complaints [...] and juvenile matters” (ibid.: 64). For further details on the court system and jurisdiction see for example Hayes 2005: 64ff. or Derichs 2003: 171f.

2.3. *Bureaucracy*

According to Mieczkowski (1991: 3) bureaucracy can cover the public, as well as private sector. He limits the definition of bureaucrats “to the upper echelons of the administrative apparatus, to the policy decision-makers, and people with power to make personnel decisions”. Bureaucracy in the Japanese sense was traditionally associated with an elite status⁸, which it gradually lost due to failings from within its structure (e.g. corruption scandals, policy failure) and “the rise of hereditary politicians” (Goldfinch 2006: 590), just to name a few causes. However, Johnson (1985: 154 cited in Hayes 2005: 58) once said that “[T]he politicians reign and the bureaucrats rule.”. The Japanese bureaucracy still has the reputation to be very powerful and highly respected while being comparatively small and economical (McCargo 2004: 103, Hayes 2005: 58).

Article 15 (1) of the Japanese constitution grants the people to “have the inalienable right to choose their public officials and dismiss them”. It further specifies in (2) “all public officials are servants of the whole community and not of any group thereof” (Hayes 2005: 296). As Derichs (2003: 167) argues, the structure and power of the bureaucracy originate from the

⁷ Japan counts eight regions: Hokkaidō, Tōhoku, Kantō, Chūbu, Kansai, Chūgoku, Shikoku, and Kyūshū.

⁸ Goldfinch (2006: 589) indicates that the bureaucracy in Japan was the only „legitimate elite group“ after World War II. Nakamura (2005: 21f.) points out that bureaucrats in the Meiji period, especially those who graduated from the Tokyo University, were considered to be more important than legislators. Furuhashi (1999: 14, cited in Nakamura 2005: 23) specifies that the „elite corps of the political establishment“ consisted of only about 10.000 of the, back then, 4 million civil servants.

Meiji period when the idea of the civil servant as a servant of the state and the principles of strict recruitment rules and the career path according to seniority were put into practice. Hayes (2005: 58) states that World War II and the subsequent occupation did not affect the Japanese bureaucracy in an essential way (see also Choi 2007: 932, Derichs 2003: 167). McCargo (2004: 105) points out that bureaucrats draft most of the legislation, not politicians, as one would expect. According to his line of reasoning bureaucrats have “quasi-legislative powers” as they drafted 80% of all legislation recently passed and in addition issued ordinances that “outnumber laws by around 9:1” (ibid.: 107). Hayes (2005: 58) indicates that an important source of power lies in the issuance of ordinances as well as ministerial communications.

Probably one of the most famous features of the Japanese world of employment is the myth of life-long employment. In the private sector only a small share of employees benefitted from this privilege. In the public sector it is “a customary practice” that ensures loyalty to the “parent organization”, instead of to the public, but it also causes “major ill effects” such as departmentalism (United Nations 1997: 11). In addition to life-long employment civil servants enjoy “security of tenure” both on the local and on the national level as indicated by Stevens (2004: 2). The principle of *amakudari*⁹ 天下り (descent from heaven) is another unique characteristic of the bureaucracy in Japan whereby senior civil servants receive at large a “plum retirement job” (McCargo 2004: 106). This method was (very) common until about 2001 (as indicated by Noble 2011: 259) and was reduced from then on, especially by the DPJ when it took over power in 2009. The National Public Service Act (Article 103 (2)) states that civil servants are not allowed to “accept or assume a position with a profit-making enterprise with a close connection to any agency of the State“, thereby somehow regulating the *amakudari* (National Personnel Authority 2006: 35). Colignon and Usui (2003: 11) describe several strategies for bureaucrats to continue their careers after retiring from civil service in different areas: *amakudari* as the move to the private sector, *yokosuberi* 横滑り as a “sideslip” to a public corporation, or *wataridori* 渡り鳥 who, like “migratory birds”, cover longer distances from public and/or private institutions, i.e. first take a step from the bureaucracy to the public sector, followed by another step into the private sector. The fourth path described leads bureaucrats into the political sphere, known as *seikai tenshin* 政界転進 (ibid.). *amakudari* are said to have played an essential role within the “iron triangle”, known

⁹ The specific feature of *amakudari* and its implications have generated an enormous amount of literature, for further details see, for example, Colignon and Usui 2003.

as a synonym for the strong and influential relations between politicians, bureaucrats and their counterparts in the business world (ibid.: 13). Neary (2002: 116) explains the disproportionate influence exerted by bureaucrats over the spheres of economy and society by the use of “administrative guidance”, which allowed ministries (best known example: the Ministry of International Trade and Industry, abbreviated MITI) to determine, for example, the amount of production in a certain sector or the share of exports. The local authorities were also able to exercise power over their clients to a certain extent. During the 1950s and 1960s this was common practice, but over the years criticism rose until finally in 1994 a law was enacted to limit the “arbitrary nature of administrative guidance” (ibid.). There is no doubt that such a system will not lead to optimal efficiency. By the 1990s the strong bureaucratic influence was increasingly seen with criticism. Civil servants were involved in several cases of corruption, they were held responsible for “the bubble economy and its disastrous aftermath”, and more and more believed to be unable to find a solution for the problems of the Japanese economy (Conlignon and Usui 2003: 48). “Public trust” is described to be the “currency of the bureaucracy” (ibid.: 184), which it was continuously losing as it was more and more perceived as being dysfunctional.

The government has put some efforts in the reform of the civil service system, which is aimed at regaining the public trust on the one hand, and providing for more efficiency and effectiveness on the other hand. It includes the revision of the system of recruitment examinations (National Personnel Authority 2010: 10), the gradual increase of the “mandatory retirement age to 65” (ibid.: 27), and modifications of the treatment of “elderly employees” (ibid.). Ito et al. (2006) summarize three important points: (1) an enhanced personnel exchange between the private and public sector, (2) the revision of the “personnel management system”, and (3) amendments in order to prevent *amakudari* and improve transparency of the “post-retirement” job-search.

2.4. Size of Government

The size of the government can be expressed in several ways. The following section comprises two approaches to show the size of the Japanese government in terms of the share of public revenues and expenditures and the share of government employment. The Japan Statistical Yearbook and the Statistical Handbook of Japan in the latest issues as well as OECD data serve as major data basis for this chapter.

2.4.1. Share of Public Revenues and Expenditures

The national budget is divided into the general and special accounts, and the budget for government-affiliated (GA) agencies as shown in table 2 below. The column “Net Total” shows the net total values after deduction of duplications of the general and special accounts. The figures for FY 2010 are final estimates of December 2010, whereas the values for FY 2011 and the GA agencies expenditure for FY 2010 show the initial budget (Statistics Bureau 2012d).

Table 2: Revenue and Expenditure of National Government Finance (billion Yen)

FY	General Account	Special Accounts	Net Total	GA agencies
Revenue				
1995	80.557	276.814	193.858	7.657
2000	93.361	341.146	234.670	7.019
2005	89.000	452.141	283.202	4.710
2007	84.553	395.920	247.230	2.604
2008	89.208	387.740	235.971	1.825
2009	107.114	377.893	246.280	1.277
2010	100.669	402.426	249.962	2.200
2011	92.412	400.020	232.687	1.843
Expenditure				
1995	75.939	232.466	155.325	7.536
2000	89.321	305.776	199.466	6.988
2005	85.520	401.184	230.183	4.103
2007	81.843	353.283	203.515	2.065
2008	84.697	359.198	204.781	1.785
2009	100.973	348.060	212.710	1.530
2010	100.531	361.591	211.646	3.135
2011	92.412	384.885	220.275	2.613

Source: Statistics Bureau 2012c

The revenues in the General Account amounted to 92.412 billion Yen in FY 2011 (equalling 462,8 billion Euro or 1.099,4 billion US Dollars) and were obtained by government

bond issues (47,9%)¹⁰, tax and stamps revenues (44,3%), and other revenues (7,8%) as illustrated in figure 2.

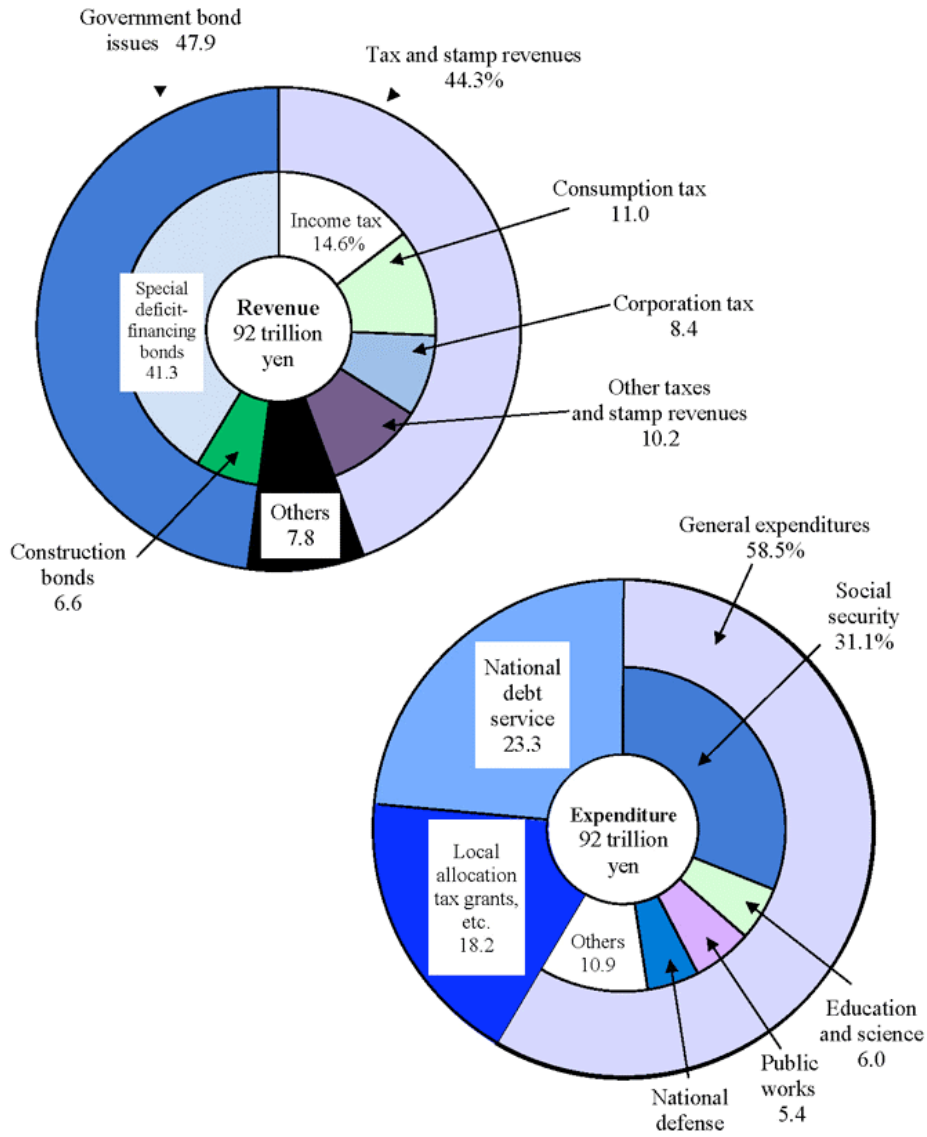


Figure 2: Composition of Revenue and Expenditure of General Account Budget (FY 2011)

Source: Statistics Bureau 2012c

The revenues from tax and stamps are further divided into income tax (14,6%), consumption tax (11,0%), corporation tax (8,4%), and other taxes stamp revenues (10,2%). On the expenditure side the largest proportion (58,5%) is dedicated to general expenditures for social

¹⁰ The share of government bond issues is relatively high and indicates that the public sector is facing severe challenges in terms of sustainable finance. Japan has seen increasing bond dependency ratios since the 1990s when the values were found around 10%. A chart published by the Ministry of Finance (MoF) shows a ratio of 49% for FY 2012 (Ministry of Finance 2011a: 3).

security (31,1%), education and science (6,0%), public works (5,4%), national defence (5,2%), and others (10,9%). The national debt service consumes 23,3%, whereas the local allocation tax grants and others account for 18,2% of the expenditures. Revenues in table 2 exceed expenditures in all years displayed. As Japan is said to have ever increasing deficits it is clear that the figures only represent one section of national government finances.

Another set of data provided by the Statistical Bureau of Japan gives an overview of the economic and financial situation in Japan in FY 2010. According to these statistics the fiscal sector showed revenues of the “General Government Operations” of almost 150 trillion Yen, an amount equal to about 1,18 trillion Euro or 1,60 trillion US Dollar, and expenditures of roughly 190 trillion Yen (about 1,5 trillion Euro or 2,03 trillion US Dollar), resulting in a deficit of more than 40 trillion Yen (Statistics Bureau 2012d). The central government operations show revenues of 14,26 trillion Yen (130 billion Euro or 173,6 billion US Dollar) in the first quarter of FY 2012, opposed by 25,41 trillion Yen of expenditures (232 billion Euro or 309 billion US Dollar) (ibid.). The trend towards a deficit continues.

According to the Organisation for Economic Co-operation and Development (OECD) (2011: 59) the revenues of the general government in Japan increased from 31,41% of the gross domestic product (GDP) in 2000 to 33,51% in 2007 and to 34,96% in 2009 as shown in figure 3 (a footnote indicates, that this value is to be dated 2008 instead of 2009).

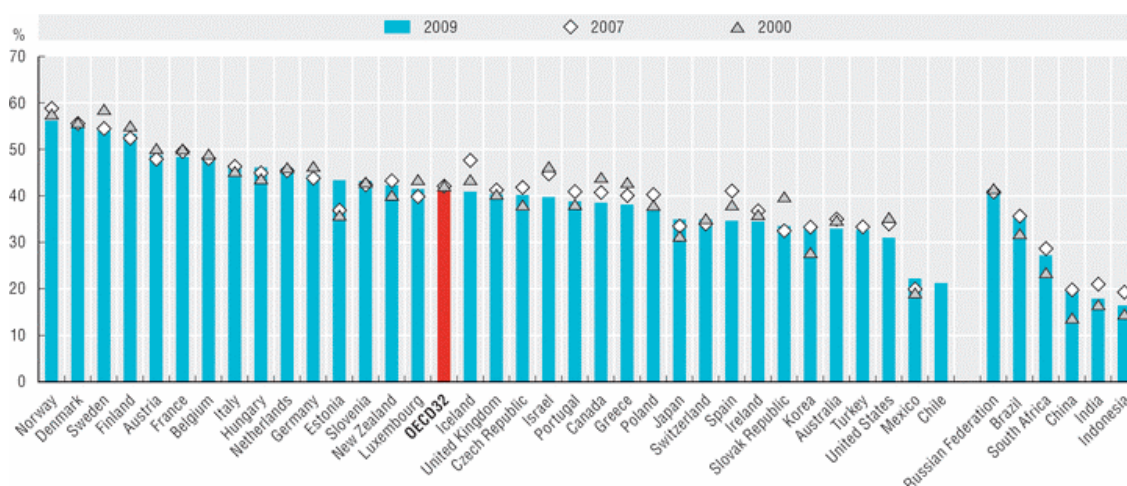


Figure 3: General Government Revenues (% of GDP)

Source: OECD 2011

Japan is on a comparable level with nations like Switzerland (34,95%), Spain (34,67%) and Ireland (34,52%). The OECD average amounted to 41,39%. Norway showed the highest level

with 56,18%, the lowest levels were observed in Chile with 21,25% and Indonesia with 16,50%.

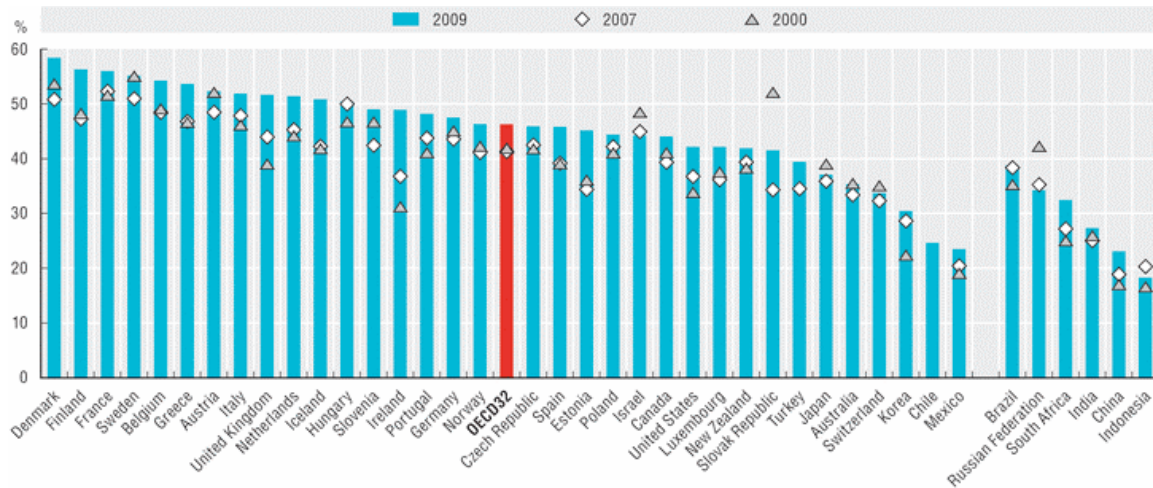


Figure 4: General Government Expenditures (% of GDP)

Source: OECD 2011

On the expenditures side Japan showed decreasing figures from 39,05% in 2000 to 35,90% in 2007 (see figure 4). The value for 2009 presents an increase to 37,08% of the GDP. The OECD average stood at 41,94% in 2000 and remained virtually unchanged with 41,31% in 2007. In 2009 an increased rate of 46,24% can be observed (OECD 2011: 65).

2.4.2. Share of Government Employment

The number of government employees varies depending on which public services and level of government are taken into account. However, the overall trend shows continuously declining numbers over the past years. Table 3 presents the latest figures available from the Japan Statistical Yearbook 2012 issued by the Statistics Bureau of the Ministry of Internal Affairs and Communications (MIC). These values are assumed to reflect the number of general service employees.

Table 3: Government Employees (1995-2009)

FY	1995	2000	2005	2007	2008	2009
Employees	819.599	799.855	633.215 ¹¹	362.252	357.787	346.519

Source: Statistics Bureau 2012b

¹¹ Employees of Japan Post are included in this figure although it was planned to transfer them to the “Postal Public Corporation” from 2003 on (Ministry of Foreign Affairs of Japan 2012b).

The massive decline from FY 2005 with 633.215 employees to FY 2007 with 362.252 employees can be explained by the subtraction of the Japan Post staff that counted 261.937 employees at the end of FY 2004 (Japan Center for Economic Research 2005: 1). Table 4 shows a total of 662.000 national civil servants – 301.000 in the special service and 361.000 in the general service.

Table 4: Size of Central Government (2008)

Type of Service	Employees
National Civil Service	662.000
Special Service	301.000
(Deputy) Ministers, Parliamentary Secretaries, Ambassadors	400
Judges, Court Officials	26.000
National Diet Officials	4.000
Self-Defence Force	271.000
General Service	361.000
General Office Staff	296.000
Prosecutors	5.000
Government Enterprise Officials	5.000
Special Independent Administrative Agency Officials	58.000

Source: adapted from Nakamura and Kikuchi 2011

Table 5 below presents the distribution of the national government employees attributed directly to institutions like ministries, commissions, agencies and the like. In FY 2000 there was a total of 41 agencies with 496.083 employees. The overall number of employees shows a decline to 279.197 in FY 2009, a reduction of 43,72% compared to FY 2000. Some institutions, like the Postal Services Agency or the Food Agency, included in FY 2000, dropped out of the counting from FY 2005 on, thus lowering the total number. Other organizations, like the Cabinet Secretariat or the Fair Trade Commission, show a considerable increase. However, a greater part of the agencies enlisted reduced their staff. Front-runner in this context is the Ministry of Education, Culture, Sports, Science and Technology with a sharp drop from over 135.000 employees in FY 2000 to roughly 2000 in FY 2005. The first figure includes „national schools / universities and inter-university research institutes (Statistics Bureau 2012b). In 2001 the central ministries and agencies were reorganized (as

described in chapter 3.4.2. below) and in 2004 „national universities and inter-university research institutes“ fell out of this counting as they were restructured to corporations (ibid.).

Table 5: Government Employees by Agency

Agency / FY	2000	2005	2006	2007	2008	2009
Total	496.083	301.719	299.319	296.364	291.414	279.197
Board of Audit	1.230	1.280	1.270	1.270	1.258	1.261
Cabinet Secretariat	338	608	607	612	620	637
Cabinet Legislation Bureau	72	72	72	70	71	72
National Personnel Authority	683	702	706	713	715	728
Cabinet Office	2.202	2.347	2.333	2.337	2.402	2.324
IHA	1.036	1.014	1.001	991	993	985
Fair Trade Commission	561	665	680	692	727	721
National Public Safety Commission	7.774	7.833	7.855	7.918	7.899	8.018
Financial Services Agency	743	1.170	1.208	1.230	1.297	1.281
Consumer Affairs Agency	-	-	-	-	-	181
MIC	6.455	5.069	5.004	4.932	4.896	5.110
Environmental Disputes Coordination Commission	38	38	38	38	38	35
Fire-Defence Agency	130	130	160	160	160	161
Ministry of Justice	46.773	47.115	47.086	47.338	47.399	47.694
Public Security Commission	4	4	4	4	4	4
Public Security Investigation Agency	1.627	1.480	1.504	1.504	1.503	1.505
Ministry of Foreign Affairs	5.207	5.343	5.303	5.433	5.452	5.561

Agency / FY	2000	2005	2006	2007	2008	2009
MoF	14.658	15.130	15.076	15.089	15.180	15.403
National Tax Agency	57.139	56.424	56.373	56.079	56.148	56.583
Ministry of Education, Culture, Sports, Science & Technology	135.107	1.953	1.956	1.954	1.961	1.960
Agency for Cultural Affairs	708	240	237	233	239	238
Ministry of Health, Labour & Welfare	80.836	37.855	37.458	37.195	37.464	38.201
Central Labour Relations Commission	113	94	112	114	115	112
Ministry of Agriculture, Forestry & Fisheries	21.483	23.325	22.689	21.369	20.027	18.832
Forestry Agency	1.395	553	539	521	516	500
Fisheries Agency	2.037	939	936	942	923	917
Ministry of Economy, Trade & Industry	7.993	4.445	4.383	4.371	4.330	4.327
Agency of Natural Resources & Energy	1.056	1.239	1.211	1.195	1.191	1.189
Patent Office	2.482	2.428	2.397	2.409	2.398	2.419
Small and Medium Enterprise Agency	188	195	200	186	185	194
Ministry of Land, Infrastructure, Transport & Tourism	49.015	44.993	44.306	43.577	42.850	42.488
Japan Tourism Agency	-	-	-	-	90	98
Japan Meteorological Agency	6.066	5.838	5.754	5.658	5.555	5.478

Agency / FY	2000	2005	2006	2007	2008	2009
Japan Transport Safety Board	-	-	-	-	174	173
Japan Coast Guard	12.133	12.302	12.240	12.427	12.501	12.583
Ministry of the Environment	1.119	1.142	1.172	1.190	1.185	1.195
Ministry of Defence	86	31	30	30	31	29
Social Insurance Agency	17.121	17.439	17.168	16.292	12.917	-
Labour Relations Commission for Seafarers	51	51	26	65	-	-
Marine Accidents Inquiry Agency	241	233	225	226	-	-
Postal Services Agency	162	-	-	-	-	-
Mint Bureau	16	-	-	-	-	-
Printing Bureau	16	-	-	-	-	-
Food Agency	9.989	-	-	-	-	-

Source: adapted from Statistics Bureau 2012b

Compared with data provided by the OECD (2010: 103) Japan shows figures well below the average for employment in general government and public corporations. Figure 5 shows a comparison of OECD countries and their government employment as a share of the labour force (ibid.).

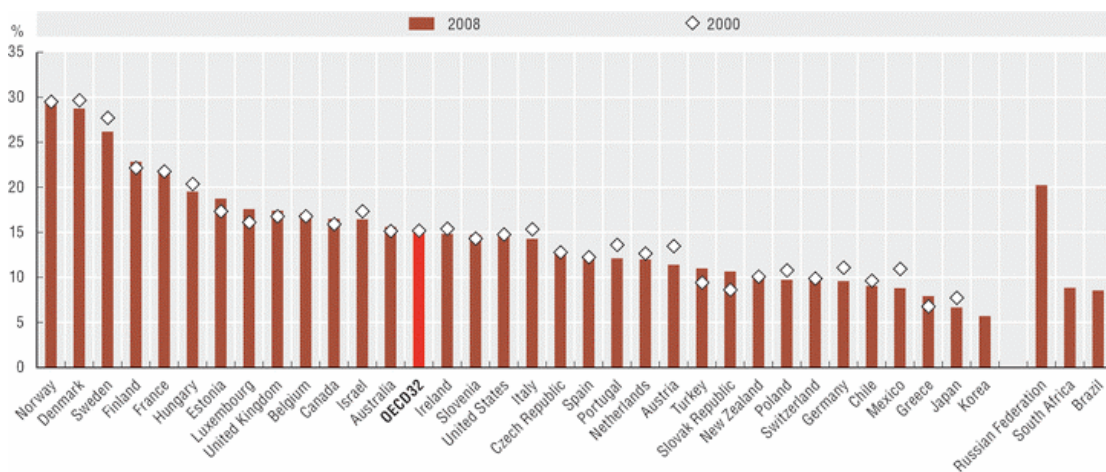


Figure 5: Government Employment as Share of Labour Force (2000 and 2008)

Source: OECD 2011

The values range from 5,7% in Korea to 29,3% in Norway. The share in Japan decreased from 7,7% in 2000 to 6,7% in 2008. The OECD average slightly declined from 15,2% in 2000 to 15,0% in 2008.

Regardless of whether the government size is measured by the ratio of revenues and expenditures as percentage of GDP or by the share of government employment the Japanese government is smaller than the OECD average.

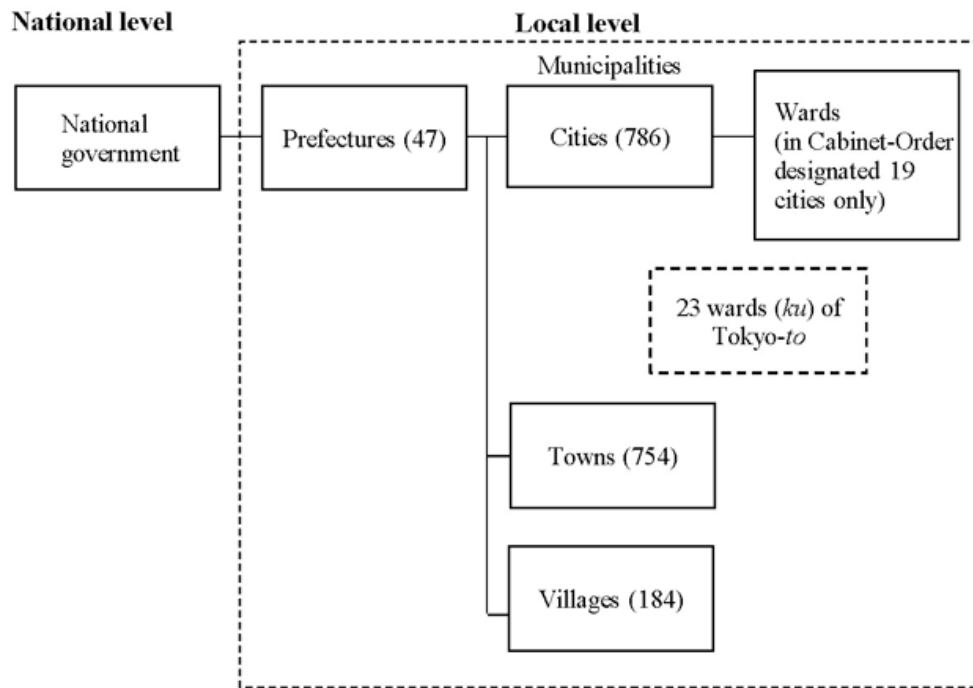
2.5. Local Authorities

The principle of local autonomy is enshrined in Articles 92 to 95 of Chapter VIII of the constitution. The Local Autonomy Law enacted in 1947 specifies the prefectures (regional) and municipalities (local) as the basis of the local government (Council of Local Authorities for International Relations 2005: 2). There is a distinction between ordinary (prefectures and municipalities) and special (special ward, municipal cooperative, property ward, and local development corporation) local government (Council of Local Authorities for International Relations 2010: 6). Only the former are described in this thesis, details on the special local government can be found in the brochure on local government mainly serving as the primary source of information for this section (Council of Local Authorities for International Relations 2010: 8f.)

Japan is subdivided into 47 prefectures (*-ken*), four of which show special characteristics: the cities of Tōkyō (with the suffix *-tō*), Kyōto and Osaka (with the suffix *-fu*), and Hokkaidō (the only region, with the suffix *-dō*) (McCargo 2005: 101). As of April 1, 2011 there are 786 cities, 754 towns and 184 villages as illustrated in figure 6 below. The 23 wards of Tōkyō enjoy a special status. In addition to ordinary cities (with more than 30.000 inhabitants and “an urban appearance”) there are also “designated cities, core cities, and special cities, with all three having enhanced powers” (Council of Local Authorities for International Relations 2010: 6f.).

Designated cities need to have more than 1 million inhabitants or at least 700.000 and the expectation to reach the necessary size of population “in the near future” (ibid.: 7). Currently there are 19 designated cities that have similar power like the prefectures as they are consigned with functions “in 19 areas such as social welfare, public health, and urban

planning, [...] management of national road and compulsory education.” (ibid.: 7f.). These cities are further divided into wards (see figure 6). Core cities by contrast are required to have at least 300.000 inhabitants (ibid.: 8).



1) Figures in parentheses indicate number.

Figure 6: Government System by Level

Source: Statistics Bureau 2012a

Core and designated cities are comparable in their scope of action with the former dealing with the same matter except for those, “that are more efficiently and uniformly handled by prefectures across their broader jurisdictions” (ibid.). Special cities as the third category need a population of 200.000 or more inhabitants. Their delegated functions are comparable to those of core cities (ibid.). According to the MIC there are 41 core and 40 special cities as of April 1, 2012 (Ministry of Internal Affairs and Communications 2012a).

Both legislative and executive institutions are established on the local level. There are assemblies on the prefectural and councils on the municipal level dealing in the former category, and the heads of prefectures (governors) and municipalities (mayors) and a range of other administrative bodies (e.g. for education, public safety) in the latter (Council on Local Authorities for International Relations 2010: 9ff.). The direct election of governors and mayors is seen as a significant step towards local democracy (Foljanty-Jost 2009: 8).

Neary (2002: 149f.) indicates the following six general functions carried out by local authorities:

- local infrastructure
- welfare facilities (elderly, handicapped, children)
- education and culture
- health and environment
- local industry, forestry, agriculture, fishing
- “citizen services”.

Prefectures deal with matters covering wider areas such as “prefectural roads, harbors, forest and river conservancy, public health centers, vocational training, [and] police”. They also carry out affairs concerning the coordination and communication with the municipalities (mainly support functions) and “supplementary affairs for municipalities” in the fields of education, culture and health (Council of Local Authorities for International Relations 2010: 16).

Municipalities on the other side are entrusted with matters more closely related to their citizens. The Council of Local Authorities for International Relations (CLAIR) (2010: 16f.) mentions five categories of affairs such as administrative fundamentals (family register and the like), safety and health functions (supply of water and waste management, for example), welfare functions (insurances), “urban development plans”, and “the establishment and management of various facilities” (halls, day care centres, schools, and so on). CLAIR indicates that there are many other functions performed by the local authorities, in fact covering “all internal administrative areas” with the exception of diplomatic, defence, “currency or justice” affairs, as they are carried out on the central government level (ibid.: 17). In order to complete the manifold duties prefectures and municipalities need extensive human and financial resources. The financial relations between local and central government are described in the subsequent section. The number of employees on the local level shows a downward trend, although the drop is not as distinct as on the national level. From initially 3.278.000 employees in FY 1995 the figure sank by approximately 14% to 2.817.000 in FY 2010 as presented in Table 6 below.

Table 6: Number of Employees on Local Level (1995-2010 in thousands)

FY	1995	2000	2005	2008	2009	2010
Employees	3.278	3.201	3.040	2.901	2.857	2.817

Source: Statistics Bureau 2012b

Table 7 shows an overview of local government employees by type of services in FY 2010. More than one third was working in the education system. Roughly 20% were handling general administrative services. Slightly more than 13% were employed in the fields of social welfare and public hygiene, just about the same as in the public enterprise account sector. Police and fire service accounted for about 10% and almost 6% respectively.

Table 7: Local Government Employees by Type of Administrative Services (2010)

Type of Services	Number Employees
Education	1.064.320
General administrative services	559.785
Social welfare and public hygiene	377.166
Police	281.309
Fire service	157.754
Public enterprise account sector	373.541
Hospitals	204.181
Water and sewage	79.456
Transportation	27.313
TOTAL	2.813.875

Source: Statistics Bureau 2012a

The share of government employees working on the sub-central levels amounted to 85,28% in 2008, whereas 14,72% were found working on the central level (OECD 2011: 105). In this regard Japan is comparable to Australia, which shows a similar distribution. In contrast, countries like Turkey, Ireland or New Zealand are characterized by an exact opposite distribution with over 85% central and less than 15% sub-central government employees. Concerning the share of central government staff in Japan a remarkable decline from 25,2%

in 2000 to 14,7% in 2008 can be observed. Finland, with 25,7% in 2000 only decreased its share to 24,0% in 2008 (ibid.).

2.6. *Financial Relations across Levels of Governments*

The Local Finance Law specifies the relationships between the central and local governments (Doi and Ihori 2009: 6). Thus, the central government is not in a position to alter responsibilities at its discretion. According to Doi and Ihori (2009: 201) the system of local finance is extremely centralized. Reasons for that are found in the Meiji period (the historical aspects are not further discussed; for details see Doi and Ihori 2009: 201f. or Neary 2002: 152).

As Mochida (2001: 1) indicates the relation between levels of governments is characterized by “a vertical fiscal imbalance”, based on the three main attributes of

- “centralized tax administration
- decentralized provision of public services, and
- dependence of local government on intergovernmental transfers.”

The expenditures and revenues on the national level have already been outlined in chapter 2.4.1. Local governments have four major sources of income: local taxes, public loans, charges for goods and services provided, and resources made available by the central government. The financial equalisation system comprises features of a mixed system with a relatively high share of taxes directly imposed on the local levels. On average one third to half of the money disposable to local authorities comes from local taxes, whereas as much as two thirds are transferred by the central government (Neary 2002: 151).

CLAIR (2010: 17) illustrates the allocation of financial resources of central and local governments with FY 2006 figures as follows: The total tax revenue amounted to 90,6 trillion Yen (634 billion Euro or 768,7 billion US Dollar), of which 54,1 trillion Yen (59,7%) were obtained through national tax and 36,5 trillion Yen (40,3%) through local tax. Via instruments like the local allocation tax (LAT) and the national treasury disbursement the central government allocates resources to the local level. The LAT functions to equalize imbalanced financial resources among local authorities. The aim is to guarantee the provision of “standard

administrative services and basic social capital to their residents in each region” (Ministry of Internal Affairs and Communications 2011: 12). In contrast to the horizontal financial adjustment in Germany, the LAT is a vertical means of equalization (Hüstebeck 2009: 34). The LAT draws resources from the corporate tax (34% of the total amount), the income and liquor tax (32% of each), consumption tax (29,5%), and the tobacco tax (25,5%). Figure 7 shows how the regular LAT is calculated for each local government.

Standard financial needs are determined by multiplying unit costs and measured unit numbers (e.g. obtained through population census) and applying an adjustment coefficient. Discounted standard revenues on the other hand are computed by multiplication of the standard local tax revenue and a calculation rate of 75%, plus the local transfer tax and the like. The difference results in the amount of the regular allocation tax to cover any shortfalls (ibid.: 11).

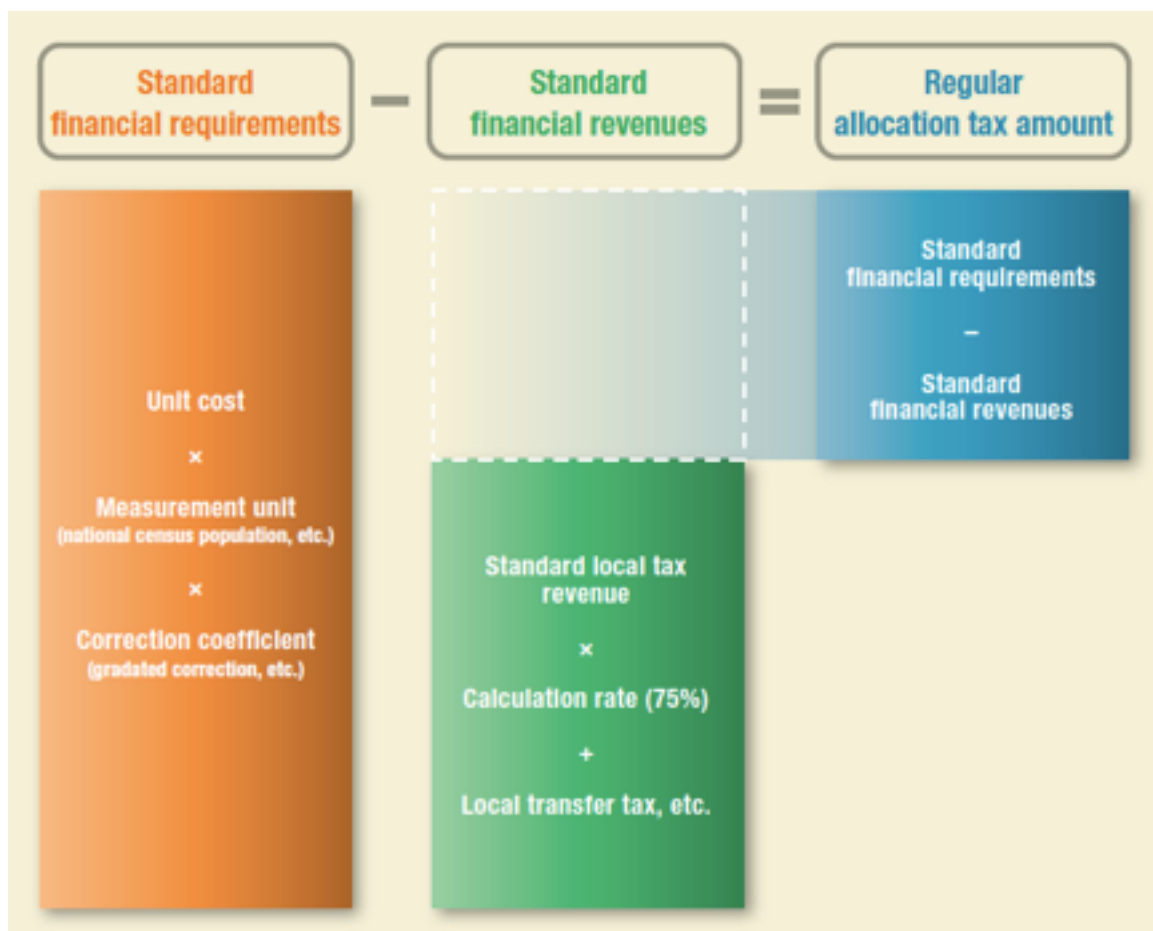


Figure 7: Calculation of Local Allocation Tax

Source: Ministry of Internal Affairs and Communications 2011: 11.

Saito and Yamada (2011: 105) note that local authorities determine the use of the LAT means, whereas the treasury disbursements are project-linked subsidies and allocated not based on a formula, but discretionary. On the expenditure side local government now shows 87,9 trillion Yen (59,5%) in contrast to 59,9 trillion Yen (40,5%) on the central government level. Consequently the ratio between central and local government has changed from 3:2 in terms of revenues to 2:3 in terms of expenditures (Council of Local Authorities for International Relations 2010: 17).

Table 8 gives an overview of the settled figures for the period of FY 2004 to FY 2008 of the net total accounts (prefectures and municipalities) after duplications have been deducted. Local taxes (consisting of prefectural and municipal taxes) amount to more than one third of the local revenues.

Table 8: Local Government Finance (Ordinary account) in trillion Yen

Item	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenue	93,442	92,936	91,528	91,181	92,213
Local taxes	33,539	34,804	36,506	40,267	39,559
LAT grants	17,020	16,959	15,995	15,203	15,406
Treasury disbursements	12,350	11,778	10,416	10,222	11,583
Local gov. bonds	12,375	10,376	9,622	9,584	9,922
Expenditure	91,248	90,697	89,211	89,148	89,691
General administration	8,941	8,737	8,618	8,906	8,920
Public welfare	15,132	15,693	16,259	16,976	17,821
Labour	0,359	0,317	0,296	0,276	0,663
Sanitation	5,785	5,707	5,510	5,436	5,390
Civil engineering work	15,235	14,417	13,853	13,391	12,871
Education	16,910	16,578	16,472	16,432	16,147

Source: adapted from Statistics Bureau 2012c

The LAT grants show values of at least 15,203 trillion Yen (about 96,53 billion Euro or 129,13 billion US Dollar), equalling roughly one fifth of the total incomes. The treasury disbursements range between 10,222 and 12,350 trillion Yen (values ranging from 64,90 billion to 96,37 billion Euro, or 86,83 billion to 119,10 billion US Dollar), or 11% and 13% of the revenues. Again, table 8 shows values of revenues exceeding those of expenditures in all years included. The question is if this set of data is complete in that it gives all information

about the status of the local government finance. The isolated view given in table 8 indicates that reforms need to be addressed especially on the central level. Another set of data provided by the Statistics Bureau of the MIC presents “net excess of revenue” with positive values for the vast majority of bodies (prefectures and municipalities), opposed to relatively few showing negative values for the period of FY 1990 to FY 2008 (Statistics Bureau 2012e).

The fact that local governments in Japan show high expenditure rates would allow for the assumption that a decentralized system is employed, but as the central government has retained a significant proportion of decision-making power this conclusion is wrong (Mochida 2001: 2). Mochida identifies the higher local expenses as a strong point of the Japanese system. Need for improvement is seen in the redefinition of responsibilities “for designing, implementing and financing these assignments”, as the central government is still too much involved in local affairs (ibid.: 7). Akizuki (2001: 2) introduces the concept of “controlled decentralization” that combines the notion of control and “the inevitability of decentralization”. According to this model there are two coexisting paths of control and centralization on the one hand, and autonomy and decentralization on the other hand. The LAT is found in both groups, as it is handled by the central government, but made available for local governments, whereas the legal instrument of agency-delegated functions, for example, is only referred to the centralization category.

Japan has implemented two contradicting approaches and it seems that there are still high friction losses because the central government tries to retain power over local entities. In order to improve processes and public sector outcomes several decentralization efforts have been made. An overview of the post-war period and a more precise description of the most recent decentralization reform measures are given in chapter 4 below.

Excursus: Fiscal Investment and Loan Program

The Fiscal Investment and Loan Program (FILP) is another specific feature of the Japanese public sector. The government established it in 1953 to have financial resources for market interventions aimed at funding infrastructure projects or at promoting economic development (Tsuji 1996: 2). Doi and Ihori (2009: 274) describe it as a means to provide “long-term funding” which private investors would not be able to handle. The system of the FILP was

financed by the use of “postal savings”, reserves from “employee and national pension” and various others, as well as “deposits of government institutions” (ibid.: 11). In FY 2001 the potential sources were limited as the availability as a matter of course of “postal savings and pension reserves” was eliminated as illustrated in figure 8 below (ibid.). Thus, the financial markets are now the major source of funds for the FILP.

A detailed description of the FILP cannot be carried out in this thesis, for further information see, for example, the FILP Report 2011 of the Ministry of Finance, Doi and Ihori 2009, Tsuji 1996, and Conrad 2000. However, there are some interesting characteristics that should be kept in mind. Although the FILP is officially not part of the budget, it is passed by the Diet due to its enormous dimensions of two thirds of the national budget (Conrad 2000: 209), which is also the reason why it is known as a “shadow budget” (ibid.: 211) or the “second budget” (Colignon and Usui 2003: 84). The FILP Plan is formulated and includes the funds planned for each year.

So-called “FILP agencies”, including the local government, receive funds through various channels (FILP bonds, government-guaranteed bonds, etc.), which they use for loans and the like, and the provision of public goods and services (see figure 8). The total outstanding sum of “loans and investments” equalled 83% of the Japanese GDP and amounted to 418 trillion Yen (about 3,79 trillion Euro or 3,31 trillion US Dollar¹²) at the end of FY 2000 (Doi and Ihori 2009: 274). Due to the enormous volume of funds involved in the FILP the government has made several efforts to slim down the FILP plans. It achieved a significant decrease from its peak in FY 1998 of about 37,1 trillion Yen (about 277,6 billion US Dollar¹³) to 14,9 trillion Yen (about 124,5 billion Euro or 177,3 billion US Dollar) in FY 2011 (Ministry of Finance 2011b: 8).

¹² Converted with exchange rates of March 2001 ultimo values.

¹³ The Euro/Yen exchange rate is only available starting from December 31, 1998. Thus, only the US Dollar equivalent is shown for this figure.

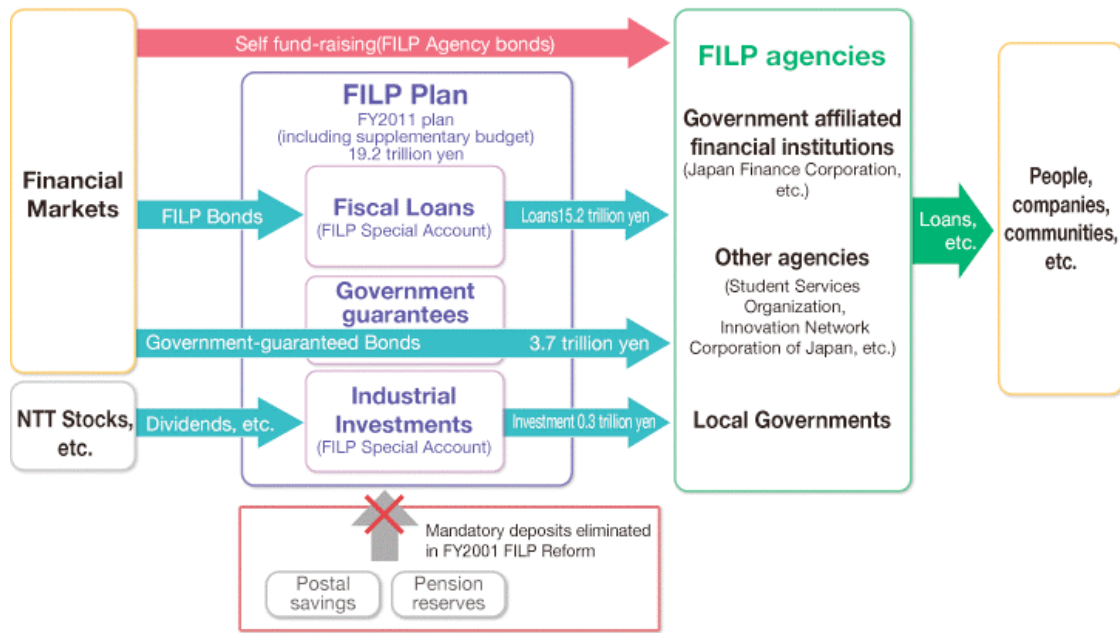


Figure 8: Mechanism of the Fiscal Investment and Loan Program

Source: Ministry of Finance 2011b

The outstanding amount could also be decreased to 189,2 trillion Yen (105 billion Euro or 149 billion US Dollar) at the end of FY 2010 (ibid.: 31). Still, the FILP, and thus the importance of public financial actions should be reduced given the developmental stage of the Japanese economy (Doi and Ihori 2009: 279).

2.7. Public Debt

Since the burst of the 'bubble economy' in the early 1990s and the subsequent 'lost decade' the budget deficits have seen a rapid growth.

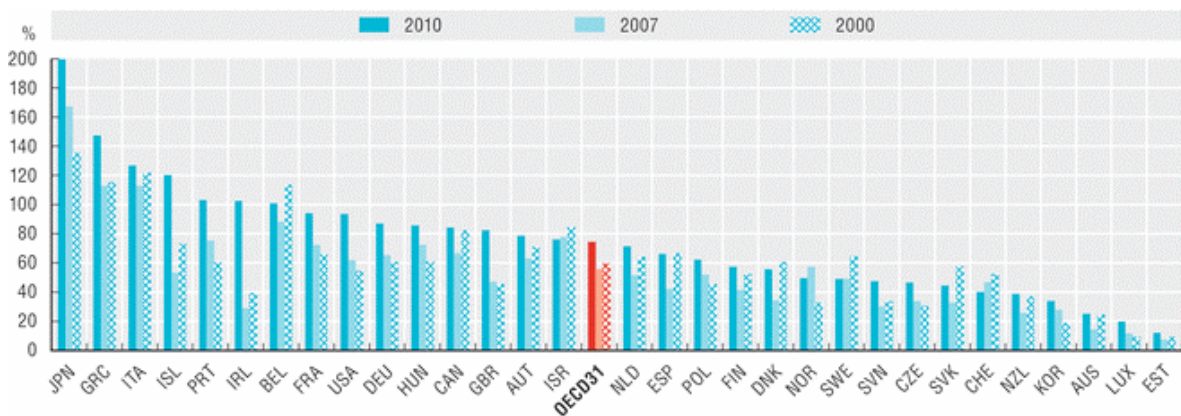


Figure 9: General Government Gross Debt (% of GDP)

Source: OECD 2011

Although the Japanese government has taken several steps to balance the tight situation it is still far from achieving sustainability in its budgets as the following arguments and data will show. Figure 9 manifests that Japan by far has the highest rate of indebtedness with about 200% of its GDP in 2010 in comparison with other OECD countries. The debt ratio continuously increased from 135,4% in 2000 to 167,0% in 2007. The OECD average started at 59,4% in 2000, decreased to 55,6% in 2007 and went up to 74,2% in 2010. But still, Japan's figure is almost three times as high as the OECD average. Consequently Japan has to make every effort to address this particular issues. According to the OECD (2011: 88) the austerity measures would have to amount to 31% of the potential GDP in order to downsize debt to 60% by 2026.

In its most recent attempt to improve its tight financial situation the government took another step towards the gradual increase of the consumption tax. The corresponding legislation was passed in August 2012 and enables the government to implement the “comprehensive social security and tax system reforms” (Daily Yomiuri Online, August 11, 2012). The consumption tax is designed to increase from currently 5% to “8% in April 2014 and 10% in October 2015” (ibid.).

3. Towards a Small Government

Although the Japanese government is relatively small in the international comparison, several attempts have been made to further reduce its size. As illustrated in figure 6 in chapter 2.5. reforms can be introduced on the central, prefectural and municipal level. Furthermore, the relations between the different levels can be subject to fundamental changes as outlined in chapter 4. This chapter, however, focuses on the central government level. The Japanese government has implemented several measures to streamline its administration and thereby cut costs and improve services at the same time. Some of the initiatives have their origin in international trends, like the New Public Management (NPM) further described below, others were only instigated in Japan, like the e-Japan and u-Japan policies¹⁴. Over the past decades the government has planned and carried out numerous reforms (pension, health, education, regulation, and many more). The focus in this chapter lies on recent administrative and decentralization reform efforts, and the role of NPM in Japan.

3.1. *Post-War Public Sector Reforms*

According to Yamamoto (2003: 11) the public sector in Japan has seen three major reforms on the central government level since the end of World War II. The timeline is assumed to end with the turn of the millennium. The first was realized in the early 1960s under the supervision of the First Provisional Commission for Administrative Reform (FPCAR or Rinchō I). About twenty years later, the second reform efforts were started in the early 1980s and resulted in the formation of numerous commissions and other advisory bodies. The Second Provisional Commission for Administrative Reform (SPCAR or Rinchō II), for example, was established to achieve „the goal of 'medium-sized government'“ (ibid.) and initiated the privatizations of large state-owned enterprises. The Administrative Reform Commission (ARC), also representative for this period, was established in 1983, with the aim to continue the reform path chosen (Muramatsu and Matsunami 2003: 173). Further details on the efforts in the 1980s are given in chapter 3.4.1. The third major reform endeavour alluded by Yamamoto was launched by PM Hashimoto (in office 1996-1998, see table 1 in chapter 2.2.3.) and was finally implemented in January 2001. The last-mentioned measures,

¹⁴ The Republic of Korea has developed a similar strategy known as the „u-Korea Master Plan“. For further details see for example Oh and Larson 2011: 113ff.

summarized as the Hashimoto reforms, comprised a bundle of six packages. During a speech at the Asia Foundation and Public Policy Institute of California in San Francisco in May 1997 Shionoya Yuichi, member of the ARC, enumerated these areas particularly relevant for reform activities as stated by the then PM Hashimoto. The list covered budget, economic, financial, welfare, educational, and last but not least administrative reform. The latter was seen to have a crucial role in the whole set as a structural umbrella enhancing the outcome of the five other reforms (Ministry of Foreign Affairs of Japan 2012a), and will thus be described in more detail.

3.2. Administrative Reform

The New Oxford Dictionary of English defines the verb *reform* as to “make changes in (something, typically a social, political, or economic institution or practice) in order to improve it (...)” (Pearsall 1998: 1560). The Brockhaus encyclopaedia refers to the Latin verb *reformare* (to reshape or redesign), describing a reform as the systematic rearrangement, improvement, reorganization of the existent (p. 657f.).

Pollitt and Bouckaert (2000: 8) approximate public management reform as structural and process changes with the aim of enhancing the functionality of public sector institutions. Caiden (2009: 1) sees administrative reform as “the artificial inducement of administrative transformation against resistance”. It goes hand in hand with the ability to organize social activities. In another publication he compares administrative reform to “a continuous program of administrative improvement” (Caiden 1999: 816). Peters presents a table with different types of administrative reforms subdivided into three groups. He distinguishes between market, participation and deregulation reform. The first category covers, amongst others, the “agency model”, the principle of “pay-for-performance”, the “internal market” approach, and program reviews. (Peters 1997: 74). The common feature is the introduction of competition for cost reduction and performance improvement (ibid.: 73). The second group includes the principles of “quality management”, “decentralization”, and the idea of “citizens’ charters” (ibid.: 74). Performance gains are obtained through the involvement of employees and costumers (or clients) and thereby taking advantage of their knowledge and understanding in the decision making process (ibid.: 73ff.). The last of the three rubrics contains “purchasing” and “personnel deregulation”, as well as the concept of “bulk budgeting” (ibid.: 74).

Peters (1997: 75) finds the “source of change” in the emphasis on rules, as opposed to competition in the first category. Pollitt and Bouckaert (2003: 23) propose the classification of reforms along “four main strategies”: maintain, modernize, marketize, and minimize. The first strategy tries to preserve the “administrative machine” but economize and optimize as far as possible (ibid.). The basic idea of the second approach is to bring about substantial changes in both processes and structures. Pollitt and Bouckaert illustrate this with the help of some examples like the change in budget processes from input to output orientation, independent agencies as a new public organization type, and the like. The third proposal is characterized by the introduction of “Market-Type Mechanisms (MTMs)”¹⁵ to realize efficiency and performance gains (ibid.). The fourth principle aims to downsize the public sector to the greatest possible extent. Privatization and contracting are mentioned as the preferred means to achieve this aim. Tanaka (2010: 3) states that both “reform” and “administration” cover various meanings, it is thus not surprising that a multitude of definitions for administrative reform can be found.

3.3. *New Public Management*

New Public Management (NPM) is known as a paradigm that emerged in the 1980s in Anglo-Saxon countries, with New Zealand taking a leading role. According to Peters (1997: 71) the NPM has become a global “gold standard for administrative reform”, differing in scope and time of implementation. He also finds a common denominator, namely the belief that governments would function better if private sector management methods were applied. Yamamoto (2003: 4) indicates that there is no consensus on the precise definition of NPM, but rather a general agreement on the basic principles. Koike (2000: 2) even compares it with “a salad bowl of different ideas for government reform”. Wollmann (2003: 2) shortly describes it as based on a cycle of setting goals, implementing and evaluating them. According to Hood (1991: 3) the spread of NPM ideas can be linked to “four other administrative ‘megatrends’”: the endeavour to decelerate the growth of or downsize governments, the transition away from government institutions to (quasi-) privatization, the development of automated public services, and the development away from national specialism towards a more international, general agenda. Hood (ibid.: 4f.) also identified and

¹⁵ Market-type mechanisms are defined as encompassing „all arrangements where at least one significant characteristic of markets is present“, most prominent examples are outsourcing, public-private partnerships (PPP), and vouchers (Blöndal 2005: 81), as well as user charges and transferable permits (ibid.: 104).

described seven overlapping basic principles summarized by Yamamoto (2003: 4) as follows:
“

- (1) an emphasis on *hands-on professional management* skills for active, visible, discretionary control of organizations (freedom to manage);
- (2) explicit standard and measure of performance through clarification of goals, targets, and indicators of success;
- (3) a shift from the use of input controls and bureaucratic procedure to rules relying on output controls measured by quantitative performance indicators;
- (4) a shift from unified management systems to *disaggregation* or decentralization of units in the public sector;
- (5) an introduction of greater *competition* in the public sector so as to lower costs and achievement of higher standards through term contracts, etc.;
- (6) a stress on *private-sector-style management practices*, such as the use of short-term labor contracts, the development of corporate plans, performance agreements, and mission statements;
- (7) a stress on cost-cutting, efficiency, *parsimony* in resource use, and ‘doing more with less.’”

The origins of NPM are described “as a marriage” between the opposites of the “new institutional economics” and the “business type ‘managerialism’ in the public sector” (Hood 1991: 5). Pollitt and Bouckaert (2003: 28) summarize that “NPM has been all about improving performance”, keywords in this regard are cost awareness, efficiency, effectiveness, customer-orientation, flexibility, transparency, and so on. They criticize that the theoretically achievable performance gains have often been inadequately evaluated. The principles of the NPM are not unquestioned at all, as several publications indicate (see for example Mathiasen 1999, Atreya and Armstrong 2002, Dunn and Miller 2007, or Mongkol 2011). It seems as if the NPM movement has passed its peak, at least in some countries (Dunleavy et al. 2006).

3.3.1. NPM in Japan

According to Hori (2003: 3) it appears that the Japanese bureaucracy rather than politicians (like in the US, United Kingdom or New Zealand) undertakes the NPM-inspired reforms. In

the same paragraph he points out that bureaucrats significantly hamper the “full development” of the Japanese Public Administration caused by the limited ability to learn “from NPM reforms” and the “misuse of NPM” (ibid.). It is commonly agreed on that NPM was adopted rather late in Japan compared on the international level. Muramatsu and Matsunami (2003: 180) conclude that the economic heydays, particularly in the late 1980s and early 1990s, better known as the “bubble economy”, led to the misbelief that there was no need for reform of the public sector. Increasing government revenues in that time strengthened the misguided conviction as pointed out by Otake (1999: 381-387 cited in Muramatsu and Matsunami 2003: 180). But as Muramatsu and Matsunami (2003: 180) reveal an increasing number of issues waited to be resolved. Thus the need for reforms finally re-emerged after the burst of the bubble and the corresponding economic and political after-effects. In the wake of scandals caused by high-level bureaucrats and the rising awareness of necessary changes the way for reforms of the central government and the civil service was paved.

Yamamoto (2003: 13) points out that only two of the above-mentioned NPM principles were identified for the implementation in the central government reform program compiled by the Council for Public Sector Reform (also known as the Administrative Reform Council, created in 1996 with the purpose to discuss the restructuring of the central government). In this context the Final Report of the Council recommended on the one hand to strengthen policy evaluation (both *ex ante* and *ex post*) in the central government (ibid.: 14). On the other “agentification as disaggregation/decentralization” was the second field for NPM style measures (ibid.: 17). In contrast, Muramatsu and Matsunami (2003: 175) argue that “many NPM tools” were implemented under the overall heading of “reorganization”. They add at least outsourcing to the already mentioned terms above. However, the following sections cover the implementation of the principles “agentification” and “policy evaluation” in Japan.

3.3.2. Agentification – Independent Administrative Institution (IAI)

The catchword “agentification as disaggregation/decentralization” has already been part of the “Hashimoto Vision” in 1996, named after PM Hashimoto (Yamamoto 2003: 17) and is particularly interesting because it serves as an example of how Japan adopted new concepts from overseas (Muramatsu and Matsushita 2003: 175). The basic idea is to separate policy-

making and implementation functions, with the former resting in central government organs and the latter being assigned to (semi-)autonomous institutions/agencies. Pollitt et al. (2001: 275) define agencies as “one species in the genus *public service providers*”, representing a form of organization that is “closest to the traditional core bureaucracy”. Functions are moved out of the central government sphere but rest within a short distance. This is one reason why the concept of agencies seems as if it was made for Japan – there is certain change in structures visible for citizens, but control can still be exercised to a comfortable extend. It is further pointed out that agencies are able to help governments fulfil the call to “do more with less” (ibid.: 277). In theory, public sector features like the quality and efficiency of services will improve with increased levels of autonomy, specialization, separation, transparency, and the like (ibid.). The ideal agency in terms of NPM characteristics shows the following features: professional management, flexibility, and responsiveness to customers, specialization, efficiency, and intense performance orientation. Activities are carried out in a most transparent way, supported by state of the art IT and accounting standards. In addition, “structural disaggregation” and “performance contracting” are identified as the “two key dimensions”, with the first being the prerequisite for flexible, specialized and customer oriented behaviour, and the latter ensuring the focus on objectives that are politically authorized (ibid.: 279).

As was indicated above, scandals within the bureaucracy drew the public attention to the reform issues in the run-up to the general elections in 1996 (Yamamoto 2003: 17). PM Hashimoto won the elections and carried out four important reforms: power gain for the cabinet, central government reorganization, outsourcing, and civil service system reshaping (Muramatsu and Matsushita 2003: 175). The reduction of number of ministries as an important part of the reorganization efforts is described further below in chapter 3.4.2. Both Yamamoto (2003: 17f.) and Muramatsu and Matsushita (2003: 175f.) indicate that the Japanese concept of Independent Administrative Institutions (IAI) was essentially based on agentification in the UK. Both also find substantial differences, beginning with the definition of agentification (PM Thatcher specified it as “management reform in the civil service”, whereas PM Hashimoto saw it as tightening up the government) (Yamamoto 2003: 17). After detailed discussion on the legal nature the Japanese government established the legally autonomous IAIs and transferred the function of policy implementation in selected domains

(in contrast to the “UK’s Executive Agencies”) (ibid.: 18). Areas where implementing policies included the “exercise of coercive authority over citizens” were completely ruled out from the outset, e.g. social security or granting of patents (these areas were strong candidates for UK agencies). Instead, the fields of “financing, operations, construction and management of assets” (Yamamoto 2006: 36), culture, research and education (Pollitt et al. 2001: 283) were envisaged. It is assumed that the nature of these particular sectors will cause problems with regard to measurement of outputs and performance (ibid.).

Goldfinch (2006: 585) stresses that – contrary to original commitments considering the independence – most of the IAI employees (their number and salaries) were determined according to the National Public Service Law, the scope of discretion related to expenses was limited, and the heads of the new institutions were appointed from among “former ministry officials”. Yamamoto (2003: 19f.) presents similar findings revealing considerable differences in the design and implementation stage. In 2001, when agentification was started with 57 entities, 50 “Chief Executives were the products of *amakudari* instead of being chosen from an open recruitment process (ibid.: 20). The IAI concept was implemented in approximately 2,2% of the public sector (Goldfinch 2006: 585). IAI receive government funding through operating grants on the one hand, and subsidies on the other hand (Yamamoto 2006: 38). According to the MIC there are 102 IAIs as of April 1, 2012 (Ministry of Internal Affairs and Communications 2012b).

The “Council on Economic and Fiscal Policy” demanded a “zero-based review” of the government functions and as an aspect of this review gave recommendations on how to carry out a reform of the IAIs (Ito et al. 2007: 1). Growing criticism related to *amakudari* and the questionable usefulness of IAIs has resulted in the need for reform. It was recommended to apply the principles of “Public to Private”, competition and consistency (ibid.: 3f.).

3.3.3. Policy Evaluation

The policy evaluation is part of the process of policy making, which can roughly be divided into four general stages (Bryner 2003: 301f.), with a changing number of steps in between, depending on the approach. Although a cycle typically has neither beginning nor ending the list of stages usually starts with the identification and definition of problems, and is followed by the formulation of a program that is set on the agenda of the responsible institutions. The

third phase – implementation – is described to be more time consuming than the preceding ones. Bryner shows a simple underlying connection between the legislative branch formulating and the executive divisions subsequently implementing the decisions made (ibid.: 302). Ideally, evaluation is carried out throughout the whole process and is not seen as the last stage of it. The assessment of policies is essential to the development of policies as it uncovers both strong points and potentials for improvement (ibid.). Policy evaluation faces at least two challenges: the availability of clear benchmarks and the necessary resources to perform a meaningful judgment (ibid.). Sato (2007: 445) explains “administrative evaluation” as a sequence of procedures that check if measures and policies are adequate and achieve their goals when compared with a certain point of reference. Kudo (2003: 489) distinguishes three different kinds of policy evaluation in relation to the implementation stage, namely the *ex ante*, *interim*, and *ex post* evaluation.

The idea of policy evaluation was not widespread in the central government in Japan, whereas local authorities had begun to develop and implement performance measurement in the middle of the 1990s (Yamamoto 2003: 14). The first prefecture set up a “rigorous administrative evaluation system” in 1996 (Sato 2007, 446). Six years later all governments of prefectures and cities had installed an evaluation procedure. The share of local authorities that implemented a comparable system showed a steady increase, too, and reached 67% in 2002 (ibid.). The development on the national level was somewhat delayed. Following the reports of the “Council for Public Sector Reforms” in 1997, the “Government Policy Evaluation Act (GPEA)” was created in 2001 and put into force in 2002 (Yamamoto 2003: 14). The GPEA was modelled on the US “Government Performance and Results Act (GPRA)” and similarly requires, inter alia, the implementation of performance rating by every government body and the publication of reports on the results of performance assessment (ibid.). Again, the Japanese version differs from its role model in that it has lower requirements concerning output-based budgeting or budget appropriations, which fall under the responsibilities of the Ministry of Finance (MoF). The Ministry of Public Management, Home Affairs, Post and Telecommunications (MPHPT) on the other hand is generally responsible for the operation of the PE system. The MoF is presumed to be superior compared to the MPHPT, thus it is not surprising that findings of PE would not be considered effectively in budget appropriations (ibid.: 15). The GPEA leaves the actual implementation

of the self-evaluation to each government entity. The “Standard Guidelines for Policy Evaluation” give an idea of how to evaluate items, projects or systems but does not provide for a uniform standard as the GPRA does, as shown by Yamamoto (2003: 15).

The Japanese interpretation of policy evaluation shows one aspect that the GPRA does not cover, namely the third party evaluation, which is required in two levels and carried out in the first instance by the MPHPT and the “Commission on Policy Evaluation and Evaluation of Independent Administrative Institutions”, functioning as the evaluation watchdog (ibid.: 16). In sum, the policy evaluation in Japan is a trimmed down version compared to the US model, and the question is if the benefits from its implementation outweigh the energy necessary to fulfil the additional requirements or if it is once more a path that leads to much ado about nothing.

3.4. *Administrative Reforms in Japan*

In the following the focus lies on the concept of administrative reforms and how it is experienced and recently implemented in Japan. As Nakamura (1996: 4) points out administrative reform in Japan usually refers to the specific attempts initiated by the government in 1981 (see also Sato 2007: 446) and does not cover decentralization and deregulation, in contrast to many other countries including the United States and Great Britain. These two instruments have been considered separately because of their perceived importance. Privatizations, on the other hand, were carried out in the course of the administrative reform initiatives as further described in the next section. Furukawa (2003: 24ff.) on the other side indicates that intergovernmental relations and decentralization were included in administrative reform efforts. However, the decentralization efforts are outlined separately in chapter 4. In an earlier publication he points out that the concepts of administrative reform and “administrative reorganization” are occasionally equated and summarizes four central fields covered by these expressions (Furukawa 1999: 440): “reform of administrative management where policy is made”, “reform of basic national policies”, “deregulation” in order to obtain a restructured economy better adopted to globalization, and the attempts to “synchronize Japanese systems with global standards”. Furthermore, he enumerates four stages of administrative reform since the end of World War II shown in table 9 below.

Table 9: Administrative Reform Phases (since 1945)

Administrative Reform Phase	Period
Democratic Phase	1945-1950s
Management-Oriented Phase	1960s-1970s
Liberalistic Conservative Phase	1980s
Reorganization Phase	1990s

Source: Furukawa 1999: 440f.

Table 10 shows an overview of selected committees and councils convened to facilitate administrative reform since 1961.

Table 10: Administrative Reform Bodies (since 1961)

Selected Administrative Reform Institutions	Period
First Provisional Commission on Administrative Reform (Rinchō I)	1961-64
Rinchō II	1981-83
Provisional Council for the Promotion of Administrative Reform I	1983-86
Provisional Council for the Promotion of Administrative Reform II	1987-90
Provisional Council for the Promotion of Administrative Reform III	1990-93
Administrative Reform Committee	1994-97
Headquarters for Promotion of Central Government Reform	1998-2001
Headquarters of Administrative Reform	Since 2001

Sources: Cabinet Secretariat 2000, Cabinet Secretariat 2012b, Cheung 2005: 258f., Masujima 2005: 297.

Since the beginning of the 1980s there has been at least one committee, council or headquarters entrusted with the task to plan and revise potential reform efforts and provide the PM in charge with advisory support.

3.4.1. Administrative reform efforts since the 1980s

Within the framework of administrative reforms presented in the following, two major strategies can be observed. On the one hand, a structural change is intended to improve government functions and cost-issues. This change necessitates, on the other hand, a fiscal reform, as the internal arrangement of central and local governments is altered. According to Furukawa (1999: 442) the 1980s can be seen as the “Liberalistic Conservative Phase” of administrative reform. The starting point for these efforts however can be found much

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earlier, in 1961, when the First Provisional Commission on Administrative Reform (also known as *Rinji Gyōsei Chōsakai*, abbreviated Rinchō I) was created. It represents the basis for “administrative reform in Japan thereafter” (Masujima 2005: 295). The Rinchō I recommended to establish the Cabinet Office, to take measures that ensure the budget is drafted by the Cabinet, to separate the planning from the implementation function, to re-allocate administrative functions “rationally between central and local government”, and to prevent “career civil servants” from attending Diet committees as “government delegates” (ibid. 296). In the 1960s these proposals were regarded as “largely unfeasible”, a claim that was refuted by the later implementation of the recommendations as part of the Hashimoto reforms. The Rinchō II started its actions in March 1981 and operated until March 1983 (Masujima 1999: 216). Against the background of increasing deficits the overall aim was to regain fiscal balance but to avoid any tax increases at the same time (Furukawa 1999: 442). In the same year the Rinchō II was dissolved, the Provisional Council for the Promotion of Administrative Reform (PCPAR) was created to put into practice the results of its predecessor institution, and was convened two more times in 1987 and 1990 (ibid.). As indicated by Wright and Sakurai (1987: 123) it did not only promote and put into practice the Rinchō proposals, but submitted new propositions in addition. The period starting with the establishment of Rinchō II in 1981 until the end of PCPAR actions in 1993 is called “the Rinchō reform period” (ibid.: 217). The outcomes and their evaluation six years after the end of the reform period are summarized in table 11 below. According to the findings of Masujima in 1999 successful implementation of the reform efforts was achieved in the fields of “Privatization”, “Fiscal Review and Cutback of Substantive Programs”, “Revision of the National Government Organization”, “Curtailment and redistribution of staff”, and “Transparency and fairness measures” (ibid.: 218). The areas of reorganization, deregulation and decentralization showed unsatisfactory results (ibid.).

Despite the successful privatizations the 1980s-efforts have left some tasks unaccomplished. The “imperfect devolution” and minimal deregulation (only about 0,5% of more than 10.000 regulations were affected) induced demand for decentralization and deregulation in the early 1990s (Furukawa 1999: 442). Deregulation during the tenure of PM Takeshita was meant to help induce structural changes of the Japanese economy as an element of administrative reforms (Masujima 2005: 297).

Table 11: Basic Achievements and Evaluation of Rinchō Reforms

Basic Achievements	Evaluation
Privatization of	
Japan National Railways	successful
Nippon Telegraph and Telephone Public Corp.	successful
Japan Tobacco and Salt Public Corp.	successful
Public Corporations	
Abolition and rationalization	(fairly) good
Fiscal Review and Cutback of Substantive Programs	
(Social Security, Public Works, Agriculture, Education, etc.)	successful
Revision of the National Government Organization	
Law in order to make organizational control more flexible	successful
Reorganization	
Strengthening the cabinet (cabinet leadership)	unsatisfactory
Reorganization at the ministerial level	unsatisfactory
Reorganization at the bureau level	successful
Liquidation of local branch offices	(fairly) good
Curtailment and redistribution of staff	successful
Deregulation	
Mechanisms for promoting deregulation	unsatisfactory
Achievement of deregulation	unsatisfactory
Transparency and fairness measures	
Enactment of personal data protection bill	successful
Enactment of administrative procedures bill	successful
Decentralization	unsatisfactory

Source: adapted from Masujima 1999: 218.

The 1990s are described as the “Reorganization Phase” in terms of administrative reform (Furukawa 1999: 442). Following the recommendation of the third PCPAR the “Administrative Reform Promotion Headquarters” was established, located directly within the Cabinet (United Nations 1997: 46). In 1994, during the tenure of PM Hosokawa, the government established the five-member “Administrative Reform Committee” with the primary function to monitor the reform progress, including deregulation

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(Furukawa 1999: 442). Deregulation moved to the central focus of the Administrative Reform Committee, which operated until 1997 (Masujima 2005: 297). Meanwhile, the still powerful bureaucracy was weakened by a series of scandals and policy failures, resulting in declining trust in the bureaucratic competence. The “Administrative Reform Council” (ARC) was established in 1996 by PM Hashimoto with the task to formulate a plan for central government reorganization in order to get it ready for future requirements. PM Hashimoto ordered the ARC to draft precise suggestions concerning central government and PM functions, and central bureaucracy realignments (Furukawa 1999: 443).

The “Agency of Management and Coordination” (AMC) was established in order to monitor the advancement of administrative reform (North 2003: 114). The ARC counted 15 members, including the chairman/PM Hashimoto, the Minister for Administrative Reform and Director of the AMC Muto, several university professors, as well as labour and business advisors. Meetings were set to take place twice a month and substantial results were scheduled for one year after the commencement of work (ibid.: 115). The cabinet decided in December 1996 to adopt the Administrative Reform Programme between FY 1997 and FY 2000 (United Nations 1997: 36). The program covered a whole range of measures as enlisted in the United Nations Country Profile of Japan (ibid.: 38):”

1. reforming central ministries and agencies;
2. rationalizing administrative organizations;
3. reducing and rationalizing public corporations and the like;
4. inspecting administrative units;
5. managing personnel;
6. rationalizing subsidies;
7. promoting deregulation;
8. promoting decentralization;
9. reviewing the division of responsibility for the public and private sectors;
10. promoting disclosure of government information;
11. recovering trust in the administration and in civil service;
12. reducing the burden on people related to applications and other procedures;
13. promoting the use of advanced information technologies in public administration.”

The list shows items that sound quite familiar to the attentive reader. Especially deregulation and decentralization are topics that appear repeatedly. Masujima (2005: 301) describes deregulation as “a central plank of administrative reform since 1987”, and further explains that it was often not related to the improvement of public administration efficiency and a reduction in administrative expenses.

The above-mentioned intentions cover a wide range and are kept rather general in this programme. A more detailed implementation was achieved through (partly already existing) specific plans such as the “Basic Plan for Computerization of the Government” (see chapter 3.6.) or the „Decentralization Promotion Plan“ (see chapter 4.2.). The specific proposal of the ARC to halve the number of ministries served as the basis for the first point in the list (Masujima 2005: 298). Although the ARC did not include „fiscal reconstruction, deregulation and decentralization“ in its recommendation, PM Hashimoto was convinced that decentralization and deregulation formed the foundation for the central government reform (ibid.). There are different notions of administrative reform, depending on the economic and political circumstances, both in international and national scope, and the government in power, a common denominator is the connotation of „positive action of government“ (ibid.). The ARC also recommended privatizing the “financial business operations of the postal system” in an “interim report” but changed this passage in the final version of the report to its complete opposite due to vigorous resistance (Imai 2009: 141). Besides the commitment to never implement the privatization of the postal services, the report included three policy proposals aiming at the reduction of the governmental involvement (ibid.). The privatization was, however, addressed by PM Koizumi as later described in chapter 3.5.2.

Kikuchi (2007: 194) uses another well-known distinction of the reform efforts since the 1980s, namely the classification according to the names of PMs in charge and responsible for the launch of the different measures as shown in table 12 below. He groups the main reform goals into “privatization”, “efficiency (NPM)”, “accountability”, “streamlining”, “decentralization, central ministries reform”, and “citizen’s participation” for the reform endeavours of the PMs Nakasone in the 1980s, Hashimoto in the 1990s and Koizumi from 2001 on (ibid.). PM Nakasone clearly laid his focus on the privatization, whereas PM Hashimoto followed a more diversified approach, with the central point of reorganizing the central ministries and agencies. PM Koizumi in turn pursued the long-time goal of privatizing

the Japanese postal services and tried to tackle several other issues, including the fiscal decentralization.

Table 12: Classification of Reforms by Kikuchi (since the 1980s)

Main Reform Objectives	Main Reform Contents
Nakasone Reform 1980s	
Privatization	JNR, NTT, Japan Tobacco
Hashimoto Reform 1990s	
Efficiency (NPM)	Deregulation, IAI
Accountability	Administrative Procedure Law, Public Information Disclosure, Policy Evaluation
Streamlining	Central Ministries, Number of National Civil Service, Deregulation
Decentralization Ministries Reform	Decentralization Central Ministries Streamlining
Citizen's Participation	Public Comments System for regulations change
Koizumi Reform 2001 ~	
Privatization	Japan Highway Corporation, Japan Post
Efficiency (NPM)	Deregulation, Regional Deregulation
Streamlining	(Net) Streamlining of Number of Civil Service (Central and Local)
Decentralization Ministries Reform	Fiscal Decentralization Regional Rehabilitation
Citizen's Participation	Special Zone for Structural Reform

Source: adapted from Kikuchi 2007: 194.

3.4.2. Central Government Reorganization in 2001

The measures reorganizing the central government ministries in 2001 are described as the “most extensive structural and institutional reforms for government in the post war era” with the focus on rearranging the “central bureaucracy” (Yamaguchi 2001: 71). It serves as an example of the “coercive approach” according to Masujima (2005: 298)¹⁶. The legal basis for the reduction of the central ministries was built with the enacting of the “Law of

¹⁶ Masujima (2005: 298f.) divides the approaches towards administrative reform into “coercive” and “cumulative” ones. The former category is characterized by a basic structure aimed at the “compulsory and collective reform of administrative functions”, while the latter deals with more specific challenges of “individual aspects of the organization of government activities (ibid.).

Reorganization of Central Ministries and Agencies” in 1998 (Furukawa 2003: 31). The actual reorganization was scheduled for January 2001. In many cases the basic system of the ministries endured without substantial change, despite their consolidation or renaming (ibid.).

The central government reform comprised four overarching goals:

- “I Establishing a System with More Effective Political Leadership
- II Restructuring of National Administrative Organs
- III More Transparent Administration
- IV Drastic Streamlining of the Central Government”

(Ministry of Foreign Affairs of Japan 2012b).

Integral points of this reform were the strengthening of the PM’s “leadership and a reduction in the number of ministries” (Kawabata 2006: 73). The reorganization of 2001 limited the maximum number of ministries to a range of 14 to 17, instead of 20 (Gaunder 2011: 10). The Cabinet Secretariat was empowered to support the PM in “drafting legislation” (ibid.: 11). Within the first point of the above list the establishment of the “Cabinet Office” was one of the integral factors (Ministry of Foreign Affairs of Japan 2012b). Kawabata (2006: 78f.) summarizes the reform outcomes as a fundamental change of the structure of the central government, and highlights the reduction of ministries and the expansion of support for the prime ministerial leadership. Table 13 shows the ministries and exemplary major agencies before and after the central government reform in 2001. The reduction of ministries was accompanied by the introduction of IAIs (as described in chapter 3.3.2.) and the promotion of policy evaluation (as outlined in chapter 3.3.3.). Under point IV of the list above, the government planned to reduce the staff size of civil service on the national level¹⁷ and the “number of bureaus” by one quarter each, and to decrease the number of divisions by one fifth until the end of the 2000s (Ministry of Foreign Affairs of Japan 2012b). According to the figures presented in table 3 in chapter 2.4.2. the government managed to reduce the number of national government employees by more than 25%. A considerable number of public employees were transferred to the IAIs.

¹⁷ The total number of national public employees was estimated to 840.000 of which about 300.000 would be attributed to the “Postal Public Corporation“ from 2003 on, thus the 25% reduction relates to the remaining 540.000 national civil servants (Ministry of Foreign Affairs of Japan 2012b).

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Table 13: Change in Central Government Ministries and Major Agencies in 2001

Old system	New system
Cabinet	Cabinet
Cabinet Secretariat	Cabinet Secretariat
Prime Minister's Office	Cabinet Office
Management and Coordination Agency	National Public Safety Commission
Defence Agency	Defence Agency
Economic Planning Agency	
Environment Agency	
National Land Agency	
Science and Technology Agency Etc.	
Ministry of Justice	Ministry of Justice
Ministry of Foreign Affairs	Ministry of Foreign Affairs
Ministry of Finance	Ministry of Finance
Ministry of International Trade and Industry	Ministry of Economy, Trade and Industry
Ministry of Posts and Telecommunications	Ministry of Public Management, Home Affairs, Post and Telecommunications
	Postal Service Agency
	Fair Trade Commission
Ministry of Transportation	Ministry of Land, Infrastructure and Transport
Ministry of Construction	
Ministry of Agriculture, Forestry and Fisheries	Ministry of Agriculture, Forestry and Fisheries
Ministry of Labor	Ministry of Health, Labour and Welfare
Ministry of Health and Welfare	Ministry of Environment
Ministry of Education	Ministry of Education, Culture, Sports, Science and Technology
Ministry of Home Affairs	

Source: adapted from Kaneko (cited in Kawabata 2006: 78)

3.5. Privatizations

The 1970s brought an end to the period of growth in the industrialized countries and the new term of state failure. Especially public organizations became a symbol of the state failure and

its consequences (Köster 1998: 15). Privatization was the newly introduced concept to reduce the public sector radically. The term ‘privatization’ is defined differently, depending on the author and the language used (ibid.). Definitions range from the change of ownership from public to private to the implementation of private management principles (Lane 2000: 184). The idea of privatization appears to be ambiguous as it signifies a retreat of the public sector on the one hand, and an advance of market-based principles on the other hand (ibid.: 186). Table 14 shows different types of privatization typically found in the German literature as listed by Köster.

Table 14: Types of Privatization

Type	Description
Material Privatization (Privatization of ownership)	State property is sold to private investors
Functional Privatization (Privatization of operations)	Functions previously carried out by public entities are outsourced and privatized
Formal Privatization (Privatization of legal identity)	Convergence to competition by implementation of private sector forms of organization and action
Execution Privatization	Technical implementation of certain operations is transferred to private sector with safeguarding through contracts and political responsibility

Source: Köster 1998: 15f.

The primary objective of privatization is to improve the efficiency of public sector actions (Lane 2000: 185, Köster 1998: 19). A subset of goals exists, for example fiscal consolidation, reduced interference from public authorities, weakening of trade unions, redistribution of capital, etc. (Köster 1998: 19). Privatization in Japan refers to the change to private management (民営化 *mineika*). This term is further specified as either the reorganization of public corporation (株式会社化 *kabushikigaishaka*), or the privatization of ownership, a synonym for a complete privatization (完全民営化 *kanzen mineika*) (following Matsubara 1991: 47-50 cited in Köster 1998: 16). Japan has seen several privatizations since the 1980s, including the Japan Airlines (JAL), the Nippon Telegraph and Telephone (NTT),

the Japan Tobacco and Salt Public Corporation (JTS), and the Japan Highway Public Corporation (for further details see for example Kawabata 2006). This chapter outlines two major privatisations. The Japan National Rails (JNR) was initiated in the course of the reform endeavours in the early 1980s and serves as an example for those efforts, whereas the privatization of the Japan Post was also discussed during the 1980s but was only recently initiated and was subject to a heated debate.

3.5.1. Japan National Rails

The Japan National Rails (JNR) was seen as one of the “three K’s”¹⁸ that were made responsible for the public deficit (Ishikawa and Imashiro 1998: 13) in the early 1980s. In relation to this issue PM Suzuki offered the slogan “fiscal austerity without tax increase” as a solution (Kawabata 2006: 66). One of the means to this end was the privatization of JNR, which had piled up deficits of more than 16 trillion Yen (more the 75 billion US Dollar) in FY 1981 (ibid.: 198) and provided poor service, thus becoming “an easy target for reformers” (ibid.: 67). The initiative was further supported by a report released in April 1982 showing how bad the condition of JNR was (Shinoda 2011: 55). But even if all 3 K’s had been eliminated, a balanced budget would not have been achievable (Ishikawa and Imashiro 1999: 13). Instead of examining the subsidy system the JNR was made the scapegoat (ibid.: 14). Köster (1998: 92) indicates that the government did not announce clearly formulated goals of the JNR privatization but rather kept a general wording. However, Köster lists four major aims, including the increased efficiency (i.e. production at minimized costs), reduced public debt through budget consolidation, a broader scope for governmental action in terms of financial resources no longer needed for JNR subsidies, and weakened influence of labour unions.

In May 1982 the privatization plans for JNR (and NTT; details on the privatization of NTT will be discussed in the subsequent section) were publicised. Due to resistance of the JNR management and labour unions difficult negotiations followed. In June 1983 the “JNR Reconstruction Administrative Committee”¹⁹ started its advisory functions and lobbied in favour of the JNR privatization (Kawabata 2006: 69f.). Both the JNR itself and the

¹⁸ The JNR is referred to as 国鉄 *kokutetsu*, literally translated as ‘state’ and ‘iron’, meaning state railway. The other two K’s are rice (米 *kome*), in terms of rice subsidies, and the national health system (健保 *kenpo*). These three items, the „3 K’s“, were said to have a major share in the rise of the public debt (cf. Ishikawa and Imashiro 1999: 19, or Yamamoto 1993: 343).

¹⁹ In Ishiwaka and Imashiro (1998: 13) it is called the „JNR Restructuring Supervisory Committee“.

reconstruction committee published plans for the reorganization, with the former rejecting the planned break up of the corporation (Ishikawa and Imashiro 1998: 13). PM Nakasone replaced the JNR chairman, rearranged great parts of the organization and paved the way for the privatization, including the break up, by changing the “balance of power” between the Ministry of Transport (MoT) and the JNR (*ibid.*, Köster 1998: 96). In December 1986 the relevant bills were passed and the JNR was privatized (Kawabata 2006: 70). Despite doubts about the necessity and positive effects (Ishikawa and Imashiro 1998: 14) the JNR was split up into several smaller units as listed in table 15. Passenger transport was divided into six regionally operating Japan Railway (JR) corporations. In addition, five bus companies were established (Köster 1998: 103).

Table 15: Units after break-up of JNR in 1987

Name	Type
JR Central	Corporation
JR East	Corporation
JR Hokkaidō	Corporation
JR Kyūshū	Corporation
JR Shikoku	Corporation
JR West	Corporation
Shinkansen Holding Corporation	Special Corporation
JR Freight	Corporation
JR Information Systems	Corporation
JR Telecommunication	Corporation
JR Technical Research Institute	Foundation
JNR Settlement Corporation	Special Corporation

Source: Köstner 1998: 100ff., Ishikawa and Imashiro 1998: 14ff.,

The JR Freight took over the nationwide freight transport, whereas the Shinkansen Holding Corporation owned the Shinkansen²⁰ tracks until 1991 (*ibid.*: 102). The holding provided the tracks in exchange for a fee, paid by the three JRs operating on the “mainland” (i.e. on Honshu, the biggest of the main islands: JR East, JR Central and JR West), which was in turn

²⁰ Shinkansen (新幹線) is the Japanese version of high-speed trains, comparable to the T.G.V. (train à grande vitesse) in France.

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used to pay off the “long-term debts” originally accumulated by JNR (Watanabe 1994: 96). As this system was said to interfere with the progress of privatization (e.g. the fixed costs of the newly established JRs were ballooned, depreciation could not be made, their independence was restricted; for further details see Ishikawa and Imashiro 1998: 38; 94) it was abandoned and the Shinkansen Holding Corporation was dissolved (*ibid.*). Another important role in the privatization process was assigned to the JNR Settlement Corporation (JNRSC) as it assumed most of the JNR debts, redundant staff, and property that was not necessary for the railway operations (Köster 1998: 102).

The total debts amounted to over 37 trillion Yen (more than 252 billion US Dollar) in 1987, consisting of long-term debts of JNR (roughly two thirds), pensions, the debts of the Japan Railways Construction Corporation, and others (Ishikawa and Imashiro 1998: 28, Watanabe 1994: 96). As was already mentioned, the JNRSC covered the largest proportion of about 25 trillion Yen²¹ (*ibid.*). The Shinkansen Holding Corporation initially assumed 5,7 trillion Yen and took over another 3,5 trillion in 1991 (Watanabe 1994: 97). The JR Freight and the mainland JRs shared a total of about 5,9 trillion Yen (*ibid.*). It was expected that the performance of the JRs would vary significantly as the population density and capacity usage differed from region to region (and still does). Especially the “island JRs” (meaning the three smaller of the four main islands, namely Hokkaidō, Shikoku and Kyūshū) were estimated to (continue to) produce deficits (*ibid.*: 96). Anticipating this trend the Management Stabilization Fund was installed to balance the expected losses by “interest income” and added another 1,3 trillion Yen to the pile of debts (Fukui 2008: 7). The plans for the repayment of debts included sources from operating profits, the shinkansen charges, and revenues from sale of land and shares. Still there was a gap of 13,8 trillion Yen to be paid by the government, or the taxpayers (Watanabe 1994: 97, Ishikawa and Imashiro 1998: 30). The number of JNR staff member peaked at over 600.000²² in 1948 and was reduced to roughly 277.000 in 1985 (Watanabe 1994: 92, Köster 1998: 178, Ishikawa and Imashiro 1999: 17). The number was continuously reduced by diverse “rationalization programmes”, especially shortly before the privatization process was implemented, a sharp drop was realized through special agreements and offers for workers who voluntarily retired

²¹ Ishikawa and Imashiro (1999: 29) tried to illustrate this enormous amount by equating it with the total sum of public debts held by Brazil and Mexico in 1987.

²² As Watanabe (1994: 92) indicates the JNR had to accept 250.000 „repatriates“

and through job offers from other sectors (industries, local government organizations, and the like) (Watanabe 1994: 92; 97). Still, the JR companies could not absorb all of the remaining JNR employees in 1987, though the Ministry of Transport used its influence and made them accept 20% more than would have been recommended as the optimum number (ibid.: 97). With over 200.000 employees transferred to the JR companies, over 45.000 choosing to retire (early and regular) and some 20.000 taken care of by the JNRSC less than 2.000 workers had to be dismissed (Köster 1998: 178.). Watanabe (1994: 100f.) indicates that several factors helped the “smooth implementation” of the JNR privatization: support of the public, revealing of numerous fraud cases and accidents, support from within the JNR, and last but not least the “strong determination and leadership” of the PMs Suzuki and Nakasone.

In the first year after the split up both freight and passenger companies exceeded the expectations and showed a total profit of 151,6 billion Yen or about 1,22 billion US Dollar (Ishikawa and Imashiro 1999: 92). The effects of the bubble economy helped to achieve this figure without the need to raise fares (Fukui 2008: 7). The “lost decade” following the burst of the bubble showed a disparate picture for the mainland companies on the one hand, and the island companies on the other hand. While the former could keep their performance on a stable level, based on a solid demand, the latter as well as the freight unit were “struggling to break even” (ibid.: 8). Although the JR companies were designed to operate independently they were still kept together, connected by a system of internal subsidies within the JR group (Ishikawa and Imashiro 1998: 93). Even in 2006 the mainland companies provided their island sisters with income from interest payments of some 20 billion Yen (roughly 140 million Euro or 170 US Dollar), thereby preventing losses to be recorded (Fukui 2008: 10).

The JNRSC was dissolved in 1998 and succeeded by the JNR Settlement Headquarters (JNRSH) (East Japan Railway Culture Foundation 2007: 26). The JNRSH is mainly entrusted with actions related to the payments of pensions and the sale of JR shares and land (ibid.: 27). Only the three mainland companies are listed, the sale of their shares started in 1993 (when the first tranche of the JR East shares was sold) and was finalized in 2006 (when the third and last tranche of the JR Central shares was sold) (ibid.: 29). The freight unit and the three island companies, on the other hand, were not yet able to improve their economic situation sufficiently for a successful flotation (as a search on the website of the Tokyo Stock

Exchange²³ indicates). The JNRSH holds a total of 950.000 shares of the aforementioned JR companies (as of December 2006) (East Japan Railway Culture Foundation 2007: 29), thus the process can only be described as a partial privatization. Köster (1998: 189f.) lists four advantages of such partial privatizations: (1) risk minimization concerning the share price, (2) profit gain caused by increased share price after performance increase, (3) flexibility thanks to sale of smaller tranches, and (4) adaption to the market situation and lower risk of “crowding-out” effects.

The privatization of the JNR has been a central issue throughout the 1980s and even 30 years after the first plans were presented the process is still far from being completed. Obviously, the government could not have foreseen the bubble economy and its subsequent burst to happen after the initiation of the JNR privatization, but one must doubt that it intended to implement it in this way. As Fukui (2008: 11) put it the difficulties of the island and freights units have to be resolved and the government has to state clearly whether these companies are worth being saved. In this case, they should be subsidized directly through the state and not by de facto unrelated companies or taxpayers. The privatizations of the other two major public corporations in the 1980s have also only been implemented partially. Imai (2009: 140) indicates that the government still is the majority shareholder.

3.5.2. Japan Post

The privatization of the Japanese Postal Services System was more than just a privatization. Due to its advantages as a government-run business it was subject to discussions between the MoF (regulating and supervising its competitors in the private sector) and the Ministry of Post and Telecommunications (MPT, running the “postal business”) (Kawabata 2006: 60), thus leading to growing demand for privatization. Especially the privatization of the system of postal savings was described as “a politically charged issue” since the beginning of the plans towards the end of the 1980s (Imai 2009: 137). It was a rather delicate venture given the enormous amount of postal savings deposits of 227 trillion Yen, equal to 1,77 trillion Euro or 2,18 trillion US Dollar (more than 30% of the “total household deposits”) at the end of FY 2003 (Doi and Ihori 2009: 286). Imai (2009: 139) sees the major task of the post offices as the collection units of “postal saving deposits”. According to his findings over 90% of all

²³ The search was conducted on August 9, 2012 at <http://www.tse.or.jp/english/>.

Japanese hold a postal savings account, compared to 35% in France or 26% in Italy (ibid.). Another important factor was the large share of 40% of the life insurance market held by the Japanese post (MacLachlan 2011: 284). Besides its function as “a local community hub” it was essential for the funding of national industry and infrastructure projects as it functioned as one of the main sources of the FILP until FY 2001 (see chapter 2.6.) (ibid.). The nationwide network of post offices counted more than 24.000 branches with most of them performing the primary task to collect postal savings (Imai 2009: 139).

Koizumi was one of the leading, but not the first (MacLachlan 2011: 286), advocate of the postal reform. In his opinion the privatization was “the first and crucial step” towards the political and economic reconstruction of Japan (Doi and Ihori 2009: 286). However, he had been pursuing this aim for a period of over 20 years (Shinoda 2011: 57). Koizumi campaigned for the position of the PM in 2001 with the slogan “reform without sanctuary” and was able to win the election by major support from the local LDP divisions, instead of relying on the backing of the LDP factions, as it had been common practice (ibid.). With his charismatic and straightforward attitude he enjoyed high personal popularity. Privatization plans for the postal services had already been formulated under PM Hashimoto (ibid.: 58). In accordance with these plans PM Koizumi succeeded, against resistance of unions, bureaucrats, opposition and even from within the LDP (MacLachlan 2011: 285), to pass initial legislation in 2002. After his re-elections in 2003, he ordered the “Council of Economic and Fiscal Policy” (CEFP) to prepare a reform concept, which was presented as the “Basic Principles for Privatization” in autumn the same year (ibid.). The reform plan was submitted to the Diet in the summer of 2005, but failed to pass the Upper House after successfully passing the Lower House (ibid.). PM Koizumi decided to dissolve the Lower House and called new elections in September 2005 (Doi and Ihori 2009: 287). Presiding the LDP, PM Koizumi explicitly excluded candidates who opposed the post privatization, known as “rebels”, and filled their places with “assassins”²⁴ (MacLachlan 2011: 286). The elections brought a “landslide victory” (Christensen 2011: 60) with a “two-thirds majority” for PM Koizumi (Doi and Ihori 2009: 288). The way was paved for the privatization and in October 2005 the relevant bills were passed (ibid.). MacLachlan (2011: 284) compares this event with “an attack on the

²⁴ MacLachlan (2011: 286) describes those “assassin” candidates as being “young” and “often inexperienced”, but strongly in favour of the “postal and structural” reforms. A more detailed view on the political events can be found there.

very soul of Japan” for many citizens, referring to the many tasks performed by the postal system.

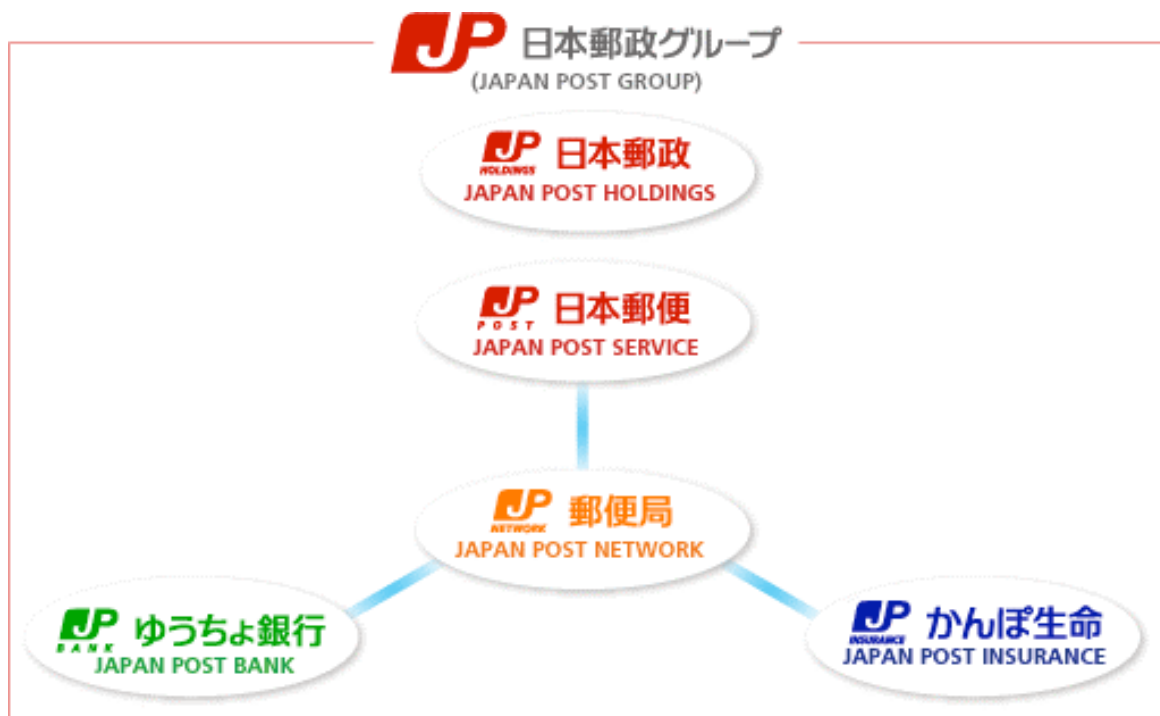


Figure 10: Structure of Japan Post Group after Privatization

Source: Japan Post Holdings Co. 2012

On October 1, 2007 the former Japan Post was liquidated anyway and the new structure as illustrated in figure 10 came into effect (Japan Post Holdings Co. 2007: 4). The Japan Post Group now consists of the Japan Post Holdings, the Japan Post Service, the Japan Post Network, the Japan Post Bank and the Japan Post Insurance. The reform plan stipulated that the Japan Post Bank and the Japan Post Insurance should be listed by 2011 and their shares be sold in the subsequent period by 2017 (Doi and Ihori 2009: 288; MacLachlan 2011: 288). In general, all of the four subsidiary units of the Japan Post Group are describe as oversized, in one way or the other. The post service and network divisions need to reduce their numbers of staff and post offices, the financial branches and the financial system as a whole are out of balance, only a decrease in the former will reduce this mismatch (Doi and Ihori 2009: 288). The privatization had been on track, despite the resistance of opposition parties and parts of the LDP. But with the government change in 2009 and the DPJ taking power the course of the privatization was altered in a fundamental way. In a first step the DPJ passed legislation to freeze the sale of the financial postal business divisions (Tudor 2009). This reverse tendency was justified with the importance of the network of outlets throughout the country that could

be used “to support small businesses, provide nursing care and even as a dating network to help increase the birth rate of Japan's aging population” the Postal Services Minister Kamei was cited (ibid.). Despite national and international concerns with regards to the distortion of competition and negative impacts on the recovery of the Japanese economy (ibid.), the reversing efforts were carried on. In April 2012 a “review bill” was passed that amends the privatization bill of 2005 to the extent that the obligatory sale of shares was softened to a “nonbinding target” and the Japan Post Insurance and Japan Post Bank are allowed “to enter new business ventures” without prior approval by the government (The Asahi Shimbun 2012). Especially the United States of America (USA) expressed their concern about the recent developments, fearing disadvantages for US companies operating in the Japanese insurance market (ibid.). The review bill was subject to criticism expressed during negotiations of the and with regard to the planned “Trans-Pacific Partnership” as it is perceived as a violation of the “free trade agreement” (ibid.).

The amendments of the initial privatizations plans did not only slow down the efforts but even reversed it. Thus, the government involvement will not decrease and negative impacts on both international relations and economic revitalization might occur.

3.6. Initiatives towards a Small Government and e-Government Trends

As part of the Rinchō II recommendations and the later Administrative Reform Programme the government planned to promote advanced IT in its administration (see chapter 3.4.1.). The spread of computer aided service provision and the use of communication technologies was identified to contribute to increased efficiency and rationalization in the public sector (United Nations 1997: 40). In fact, the five-year „Basic Plan for Computerization of the Government“ was already adopted in 1994 (ibid.). Towards the end of the 1990s the government worked on the equipment with and improvement of physical information technology infrastructure and provided its civil servants with PCs and local area networks, thus improving quality, effectiveness and efficiency of the public service (ibid.: 40f.).

In its ongoing effort to improve public services and restore Japan’s supremacy, the government has implemented several initiatives. Two of the more recently implemented ones are described in the following section, namely the e-Japan and the u-Japan Strategy, designed

to optimize the use and thus the benefits of information technology (IT) and information and communication technology (ICT).

3.6.1. The e-Japan Strategy

This section is mainly based on the information provided by the Cabinet Secretariat (2001a) other sources are indicated accordingly. The IT Strategic Headquarters within the Prime Minister's Cabinet presented the e-Japan Strategy in January 2001 at its first session. The Strategy was designed as a Priority Policy Program with the overall aim to transform Japan into the leading IT nation within the following five years. The underlying idea was to increase the connection rate to modern high-speed mobile broadband services all across Japan. The ideal IT society was described by four core characteristics:

- Benefits of IT for all Japanese citizens.
- Advanced economy and internationally competitive industry.
- Prosperity and unrestricted interaction for citizens and local communities.
- Contribution to a global IT/internet society.

The basic guidelines included the division of roles between the public and the private sector, the definition of five priority areas, the consideration of cross-cutting issues, and the role of the IT Strategic Headquarters.

As for the first point, the private sector was meant to take the leading part by realising its full potential. In addition to the development of a corresponding environment for undisturbed market activities the government was demanded to take an active role in areas like e-government and bridging the digital divide, always keeping the efficient allocation of budget in mind. The priority areas comprised the establishment of world leading IT networks in Japan, the support of human resources, education and learning, the promotion of e-commerce and e-government in the broadest sense, and the definition of safety requirements to ensure secure and reliable IT networks. The government committed itself, in addition to the above mentioned tasks, to actively handle cross-cutting issues by promoting basic IT research and development or by creating an environment in which all people can benefit from internet and IT technologies at almost the same level regardless of any constraints whatsoever (age, physical condition, or geographical position). The IT Strategic Headquarters was charged with the monitoring of the implementation process. It should perform investigations twice and

reviews once a year and further develop and implement significant actions (Cabinet Secretariat 2001a).

One of the main emphases was placed on the “Digitization of the Administration and Utilization of IT in Other Public Areas” (Cabinet Secretariat 2001b). The target definition in this priority area included the conversion of public services (e.g. delivery of information, application and notification) from paper-based to IT-based. By digitalising the administrative procedures the citizens’ and private businesses’ convenience in general was intended to rise.

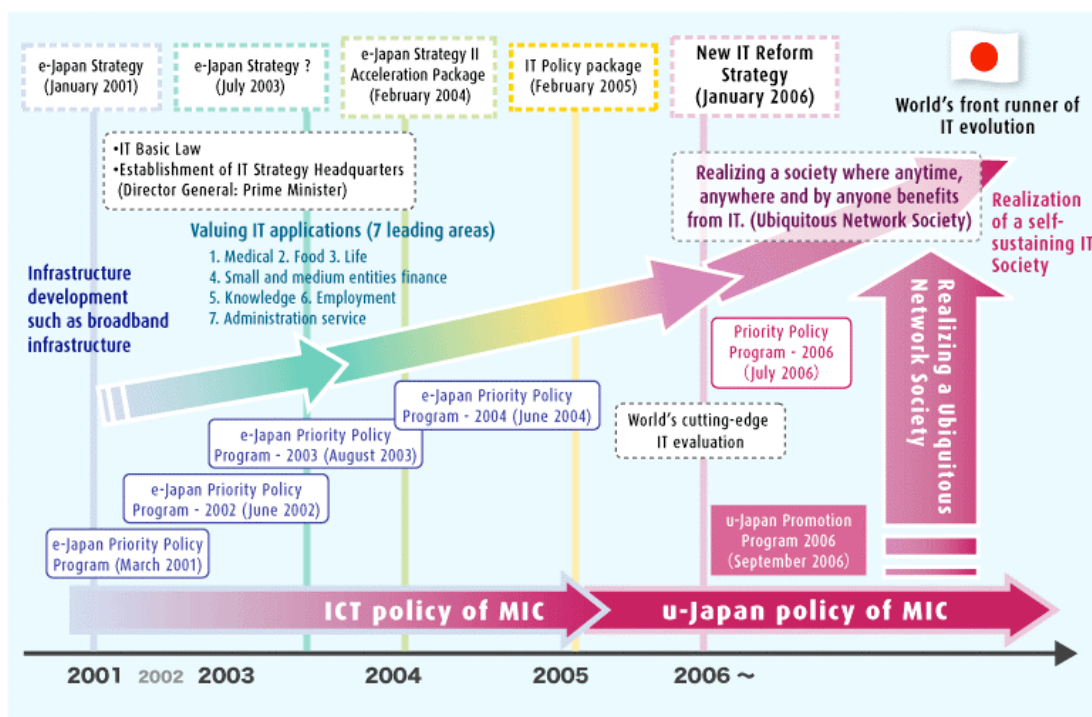


Figure 11: Steps taken in Japan on IT Strategies

Source: Ministry of Internal Affairs and Communications 2007a

The central government planned to support local governments and municipalities during the digitization process, as they are more directly interacting with the aforementioned players. In parallel to the enhanced public services internal improvements were also considered. Training plans to ameliorate the staff's information literacy and reform of their current mindset were envisaged in all offices and ministries (ibid.). As shown in figure 11 the e-Japan Strategy is only one step in a series of IT strategies implemented in Japan. The timeline starts with at 2001 with the first e-Japan Strategy with its goal to enhance the development of infrastructure such as broadband access. In February 2004 the e-Japan Strategy II

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Acceleration Package was launched, followed by the IT Policy package a year later. The ICT policy is followed by the u-Japan policy, which is further described in the subsequent chapter. Figure 11 also indicates the establishment of infrastructure and the promotion of use of the e-Japan Strategies and the u-Japan Policy. The e-Japan Strategy formed the basis for the following initiatives by ensuring the spreading of broadband access and by promoting the use of e-government and e-commerce. The e-Japan Strategy II pursued aims in seven leading areas, including knowledge, employment, SME finance and administrative service. Figure 12 shows the development from the prerequisite of appropriate infrastructure for the e-Japan Strategy, to the e-Japan II Utilization and the emergence of new values under the u-Japan Strategy.

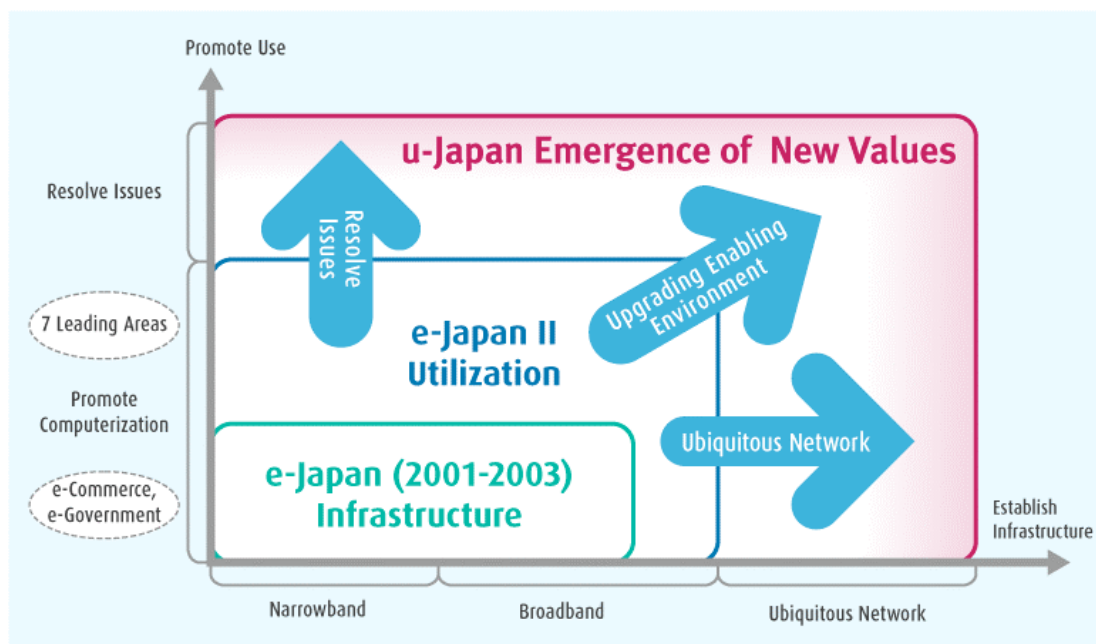


Figure 12: u-Japan Emergence of New Values

Source: Ministry of Internal Affairs and Communications 2007b

Besides the e-Japan Strategy the government was also implementing the Master Plan for Promotion of Government-wide Use of Information Technology in 1997, the Millennium Project in 1999, and the Basic Law on the Formation of an Advanced Information and Telecommunications Network Society, as well as the Administrative Reform Program 2000 (Nakagawa 2002: 9). However, the e-Japan Strategy represents the most significant step towards the implementation of e-government, which is meant to support and necessitate administrative reform at the same time (ibid.: 21).

3.6.2. The u-Japan Policy

The Ministry of Internal Affairs and Communications (MIC) had been working on further developments of e-Japan Strategies and finally presented the u-Japan Policy in December 2004 and a Promotion Package in September 2006 (Ministry of Internal Affairs and Communications 2006). The declared objective of the u-Japan Policy was to realise the “Ubiquitous Network Society” by 2010. In contrast to the previous strategies the focus was on addressing social issues rather than expanding the use of wired ICT. The principal idea was to connect people and make services available even beyond existing physical networks. ICT was designed to play an ever-increasing role in people’s lives. Aware of the potential risks of and defensive attitude towards this planned intrusion into privacy the MIC intended “to upgrade enabling environment and to take comprehensive and concrete measures”, giving no further detail on how this measures would look like (Ministry of Internal Affairs and Communications 2007b). The ubiquitous network idea is said to have its roots in Japan (Murakami 2005: 1). But other countries, in particular Korea, have also adopted u-strategies.

Despite the ongoing efforts towards better communication and connection between various key players data provided by the United Nations (UN) and the OECD indicate that Japan lags behind its own expectations. The UN E-Government Survey 2012 shows a ranking of the Top 20 countries measured by the “e-government development index” (United Nations 2012: 11). According to this list the Republic of Korea is the leading country, followed by the Netherlands and the United Kingdom. Japan only is found on rank 18. The OECD data offers a similar conclusion, although a fully valuable comparison is not possible as there is no figure given for Japan in 2010. Data provided for 2005 illustrate that Japan with 18% is well below the OECD average of 28% of the population interacting with public authorities via Internet (OECD 2011: 171). Leading countries like Iceland, Norway and Sweden show values of more than 50% in 2005, and an increase to over 60% and 70% in 2010.

4. Power to the Local Governments

The national level (see figure 6 in chapter 2.5.) exercises its power over the local governments (prefectures and municipalities). If the structure was to change, the relations between the central and the local authorities will have to change as well. This chapter examines how the transfer of power and responsibilities has been carried out over the last two decades and what alternative forms of organization is available for both municipalities and prefectures. Japan was, and partly still is, characterized by a relatively high degree of centralization (Nakamura 1996: 1) although the opposite view is, as in almost any case, also represented (see for example Lijphart 1999: 188ff., who identified Japan as a unitary and decentralized democracy). In this thesis, the structure of intergovernmental relations is regarded as centralized. No matter from what perspective it is looked at, the public sector in Japan is facing several challenges. It is commonly agreed on that the centralized system was working well in the decades after the end of World War II until the early 1970s, providing the Japanese economy with the necessary framework to recover quickly and grow to be one of the leading economies worldwide (e.g. Köllner and Bosse 2001). But the once appropriate system has failed to adapt to changing circumstances to an ever growing extend. The „Decentralization Promotion Committee“ (DPC), amongst others, has identified the need to redesign the roles of governments across the different levels in Japan, shifting power away from the centre in Tōkyō towards the subordinated levels (Council of Local Authorities for International Relations 2008: 12). This chapter deals with the principle of decentralization in general, its implementation in Japan, and the development of municipalities in terms of numbers and responsibilities.

4.1. Decentralization

Aucoin (1990: 122) describes decentralization, along with deregulation and delegation, as principles designed to increase the capacity for autonomous actions, make use of clarified missions and goal, respond to both „clients/customers“ and members of staff. Decentralization, in particular, focuses on the „managers down the line“, who do not longer „administer processes and systems“ but „manage operations and people“ (ibid.). Control exercised by a central entity is not completely abolished, but limited to fundamental strategies. Centralized institutions are characterized by a „paralysis-by-analysis“ or the „getting-ready-to-get-ready syndrome“, leading to a „self-inflicted constipation“ (ibid.). In

other words, such institutions dedicate more resources and time to preparatory measure than to the actual implementation of actions and thus provoke stagnation. Aucoin finds that these symptoms match government organizations, which are often driven towards centralization by principles manifested in the constitution and political processes. In order to establish decentralized structures, managers in subordinated levels have been provided with extended „authority and responsibility for policy and expenditure“, as for example in the UK, Canada and Australia (ibid.: 123). It is to be noted that the effectiveness of decentralization is only achieved if the hierarchical levels within an organization are minimized and trouble-shooting by the central division is possible in a quick and effective way, with routine actions managed by decentralized units (ibid.). Lane (2000: 253) discusses „decentralization as a strategy for enhancing effectiveness and efficiency in the public sector“. He notes that the term is ambiguous as more than one process of change may be linked to it. According to his findings, the following nine principles correspond to decentralization:

- “
- (1) geographical transfer of bureaux from the urban core to the periphery;
 - (2) privatization;
 - (3) emphasis on implementation instead of planning and policy-making;
 - (4) transfer of functions from the state to local governments;
 - (5) transfer of decision opportunities from the central to the local level in the public sector;
 - (6) participation of the local level;
 - (7) access or influence of the local level on the centre;
 - (8) formalization of implicit institutions;
 - (9) integration of organizations.” (Lane 2000: 253f.).

The question of good supply of services remains unanswered due to different individual approaches depending on the very service provided. Some of the reasons speaking for and against (de-)centralization are summarized in table 16. Centralized structures offer, amongst others, the advantages of optimized equality and coordination, whereas they are weakened through their hierarchical approach and strong standardization. Decentralized institutions on the other side benefit from flexibility, adaptability, and more detailed information about the needs of their inhabitants, but involve the risk to pave the way for traditionalism and inequalities without a central watchdog (Lane 2000: 254, Doi and Ihori 2009: 202ff.).

Table 16: Advantages and Disadvantages of Centralization and Decentralization

Centralization	Decentralization
<ul style="list-style-type: none"> + equality + coordination + uniformity of results + minimized cost for policy formulation 	<ul style="list-style-type: none"> + flexibility + adaptability + more/better information about citizens' needs
<ul style="list-style-type: none"> - hierarchy - excessive standardization - welfare loss 	<ul style="list-style-type: none"> - traditionalism - inequalities - external effects not considered

Source: Lane 2000: 254, Doi and Ihori 2009: 202ff.

Usually sub-national authorities or citizens express the need for decentralization, but Nakamura (1996: 5f.) found the main arena of the discussion on decentralization in Japan on the national level. He identified four major stakeholders, which took key roles in the debate, while local authorities stayed in the background. The supporters are „national legislators, business leaders, and labour unionists“, opposed by the bureaucracy in the centre, trying to prevent any loss of power (ibid.: 6).

4.2. Decentralization Reform in Japan

Muramatsu and Matsunami (2003: 176) advise to see the Japanese decentralization reform not as guided by NPM principles. They argue that members of the ARC remained largely of the conviction that decentralization was to enhance autonomy of local governments rather than to realize improvements in terms of effective governmental management. This initial perception however shifted, due to the fiscal situation by the time the decentralization efforts „entered the stage of legislative drafting“ (ibid.). Thus, the focus moved to a more holistic approach towards an effective and productive government in Japan. The appearance of decentralization reforms in Japan (as well as in Korea) was observed rather late when compared to other similarly developed industrial nations and the level of local autonomy is still lower than in countries like the United States (Bae 2007: 90). According to Bae several attempts at decentralization were made in Japan since the end of World War II and prior to the most recent decentralization reform of the past two decades (ibid.: 91f.). Bae presents five stages in the relationship between levels of government in the post-war era elaborated by Koike and Wright shown in table 17.

Table 17: Phases of Decentralization Reform in Japan

Phase	Description	Period	Major Reforms and Events
1	Local Electoral Democracy founded	1945 – 1950	<ul style="list-style-type: none"> - New Constitution (local autonomy and direct election system) - Abolition of Ministry of the Interior
2	Centralization in National Development	1950s – 1960s	<ul style="list-style-type: none"> - Recentralization of administrative affairs (police, education) - Increase of agency-delegated functions
3	Progressive Movements	1960s – 1970s	<ul style="list-style-type: none"> - National Development Plan (for rural regions and more balanced development) - New Industrial Cities Act (incentives for local governments)
4	Collaborative Devolution	1980s – 1990s	<ul style="list-style-type: none"> - Various decentralization reform proposals - Privatization, National grant reduction, Federation of local governments
5	Promotion of Decentralization	1990s – 2000s	<ul style="list-style-type: none"> - Decentralization Promotion Law - Change in limited nature of central-local relations towards more decentralization

Source: adopted from Bae 2007: 93ff.

Sakakibara (2003: 112) refers to Amakawa (1987: 119) who stated that decentralization is the expansion of citizens' and local authorities' autonomy. Essentially, "local public entities" have the constitutional right to "manage their property, affairs and administration and to enact their own regulations within law" (Chapter VIII – Local Self-Government, Article 94).

In Phase 1 of the decentralization movement the "basis of local democracy"²⁵ was founded with the enactment of the new constitution and the Local Autonomy Law in the years following the end of war, and the abolition of the Ministry of the Interior, which was held responsible for the distinctively powerful position of the central government in relation to

²⁵ The representatives on the prefectural and municipal levels were no longer appointed by the central government but directly elected (see chapter 2.5.).

local governments (Bae 2007: 92f.). The local bodies made an important step of development away from being mere “branch offices of central ministries” to exercising functions and responsibilities on their own (ibid.).

Phase 2 of the decentralization efforts is characterized by a u-turn back to a “re-centralized” administrative system aimed at the support of economic recovery. The central government directly controlled local government via “agency-delegated functions” (ADFs), the abolition of the system of local elections was considered but finally not put through (ibid.: 94). Kamiko (1997: 193f.) describes the status of local units under the “Agency Delegation” concept as some kind of vicarious agent, fulfilling the national government’s duties as mandated by law. The percentage of agency-delegated tasks ranged from 70% to 80% on the prefectural, and from 30% to 40% on the municipal level (Council of Local Authorities for International Relations 2008: 8). Thus, the local governments found themselves in a similar position as before the changes made in the first phase.

Phase 3 was overshadowed by negative side effects of economic growth and industrialization in the 1960s/1970s like pollution of the environment and decreasing quality of life in urban areas. As a reaction to these undesirable conditions progressive politicians on the local level and officials from parties other than the LDP induced policies with a certain degree of innovation and took the opposite standpoint to central authorities. The local development was stimulated through measures like the National Development Plan or the New Industrial Cities Act, whereas the central government itself expanded quickly in terms of size and power, and provoked “coordination problems” (Bae 2007: 95).

The macroeconomic environment changed from favourable to challenging with the oil shock and its aftermath in the 1970s and the international pressure on the Japanese market. Regardless of their level, governments faced tight financial situations in Phase 4. Under these circumstances Japan was forced to initiate a number of reform programs. Consequently, the SPCAR in the early 1980s and the “Council for the Promotion of Administrative Reform III” (CPAR) in the early 1990s recommended strengthening the autonomy of local governments. Measures proposed included to streamline subsidies and abolish the ADFs (ibid.). Jacobs (2004: 247) presents an alternative approach to the consolidation of local governments, namely the formation of “Federations of Municipalities” (further described below), introduced with the revision of the Local Autonomy Law in 1995. Phase 5 features the fade of strong bureaucrat resistance in the wake of turbulent economic and political conditions and the

“empowering [of] reformists in the governments, localities and businesses” (Bae 2007: 96). To promote decentralization several laws were prepared and enacted, following the resolutions passed in 1993 (Kamiko 1997: 194).

The “Law for Promotion of Decentralization” of 1995 defined that the decentralization was to be advanced by a clear distribution of responsibilities between central and local government, an increased level of local independence, and local communities characterized by diversity and vigour (ibid.). The law required, in particular, the composition of the “Decentralization Promotion Plan” (DPP) and the formation of the DPC, with the latter being responsible to supply the PM with recommendations to be included in the DPP (ibid.). Following a series of “highly respected” suggestions, the DPP was published in May 1998, including six central concerns: “

- (1) Abolition of Agency Delegation,
- (2) Creation of new rules concerning central-local government relations,
- (3) Promotion of the transfer of authorities from central to local governments,
- (4) Re-examination of ‘Compulsory Organizations and Posts’,
- (5) Streamlining of central government disbursements and the amplifying of local revenues, and
- (6) Restructuring of local governments’ administrative structures” (ibid.:194f.).

Furukawa (2003: 28ff.) states that four key aspects made the enactment of the law possible. One pillar of success was the cooperation of authorities on the prefectural and municipals levels and the guaranteed continuation of the two-tiered system. The second factor was the involvement of coalition parties in favour of decentralization. The support for the decentralization topic by key players in the political arena is identified as another necessary feature. Last but not least, a balanced power in the system of administration was essential for the Law for Promotion of Decentralization to be passed. Should, theoretically, the LPD have been the only governing party back then, it is questionable if the law would have been enacted in such a way and at that point of time.

One year after the formulation of the DPP the “Omnibus Decentralization Law” was enacted in July 1999, and implemented in April 2000 (Council of Local Authorities for International

Relations 2008: 13). The law, referred to as the “high point of decentralization” (Furukawa 2003: 21), comprised the abolishment of the strongly criticized ADFs, the evaluation of central government control over and interference with local government affairs, the clear division of tasks, the transfer of competence to the local level, the examination of compulsory regulation of local government organizations (Council of Local Authorities for International Relations 2008: 13).

Altogether, the number of laws concerned exceeded 450. The abolition of the ADF system was achieved and brought along the revision of over 350 laws. The amendments fall into three categories: tasks that were abolished, tasks that were directly implemented by the central government, or implemented by the local governments as in the past (*ibid.*). Most of the previous ADFs were left for implementation on the local levels, divided into functions of self-government and those delegated by law (*ibid.*). Another important change was realized with the abolition of the “comprehensive supervisory authority” performed by the central authorities (*ibid.*: 14). In addition, the central government intervention was limited to an “absolute necessary minimum” and criteria were determined, as well as a settlement body for intergovernmental conflicts was established (*ibid.*). Certain requirement mechanisms were softened, e.g. those concerning the appointment of specific positions or the issuance of local government bonds (*ibid.*). The explanations concerning the clarified roles of central and local authorities are kept rather general. Still, positive effects for decentralization are to be expected (*ibid.*: 15). Concerning the transfer of authority a change in the intergovernmental relationship is observed from a superior-subordinate style to a more equal and cooperation-oriented one, the laws concerning “forestry”, “city planning” and the “child rearing allowance” serving as good examples for this development (*ibid.*). Authority can be transferred from the central to the prefectural level, or from the prefectural to the municipal level.

A first evaluation of the decentralization efforts shows a positive trend and “considerable progress” made (*ibid.*: 17). One of the most important achievements is without doubt the elimination of the ADF system. Although the tasks remained within the duties of the local units, they now also have the responsibility. Another important step was the “clarification of the divisions of roles”, as well as the establishment of rules concerning the intervention of central government (*ibid.*: 17f.). Although “a period of change and review” has been entered, there are still several issues to be addressed, e.g. aspects of residents autonomy and the financial dimension (*ibid.*: 19f.). The latter will be dealt with in section 4.5. below.

4.3. Municipal Mergers

Japan has taken three major steps to decrease the number of municipalities in the last century. Starting with 71,314 in 1888 the “Great Meiji Consolidation” brought a significant drop to 15,859 entities (Yokomichi 2007: 2). The “Great Showa Consolidation” from the mid 1950s to the early 1960s induced a further reduction from 9,868 to 3,472 local authorities (ibid.). The “Great Heisei Consolidation” in the period of 1999 to 2006 achieved another decline from 3,229 to 1,821 units in 2006 (ibid.). The current number of local authorities amounts to 1,724 in 2011 as shown in figure 6 in chapter 2.5. above. The overall trend since the Meiji Era is clearly towards urbanization as the number of villages and towns (i.e. the smaller units) dropped considerably whereas the number of cities has risen from a few dozens at the end of the 19th century (ibid.) to 786 in 2011. Yokomichi (ibid.) outlines the background of the Heisei mergers with four fundamental trends: the most obvious demographic phenomena of falling birth rates and aging population, the advancement of decentralization efforts, the deterioration of central and local government finance, and the expanding everyday living space. The demographic trends present challenges for municipalities in terms of changing need for services they provide on the one hand and the funding possibilities of those services on the other hand. There are three major goals of the most recent mergers: to transfer authority to towns and villages, to promote “fiscal efficiency”, and to establish systems of local self-government (Namba 2009: 72).

The municipal amalgamations were facilitated by a set of corresponding laws and acts. The “Town and Village Act” resulting in the reduction of towns and villages was passed in 1888, the “Municipal Amalgamation Promotion Act”, aimed at creating large entities with 8,000 inhabitants on average, was enacted in 1953, and the “Law for Special Measures on Municipal Amalgamation”, also known as the “Municipal Amalgamation Law” was put into force in 1965, providing “a variety of exceptional measures to facilitate voluntary amalgamation” (Koike 2010: 2). In order to counteract negative reactions the law offered financial benefits to municipalities that decided to consolidate or merge, such as a guaranteed LAT amount for a 10-year period (ibid.). Due to ‘underperformance’ the Municipal Amalgamation Law was extended three times. In addition, the “Decentralization Promotion Act” was enacted in 1995 following “the recommendations of the Decentralization Promotion Committee” (DPC), which also included to abolish the system of ADFs (ibid.: 3). The

amendment of the Municipal Merger Law (as Yokomichi 2007: 10 calls it) in 1995 basically changed its neutral nature towards municipal mergers into a promoting tendency. The central government offered fiscal advantages for those municipalities deciding in favour of a merger (ibid.). The merger of municipalities follows an elaborated procedure, including the establishment of a “merger consultation committee” that discusses all relevant features of “the newly merged municipality” (location of government bureau, business agreements) and develops a “master plan” (Yokomichi 2007: 9). After a successful vote in the affected municipal assemblies the application is submitted to the governor, who in turn decides in this matter depending on a successful vote in the assembly of the prefecture (ibid.). The merger request moves further up to the central government where the MIC “issues a public notice”, whereby the merger enters into effect (ibid.). The whole process takes about two years (ibid.: 12). The number of mergers amounts to a total of 582 in the period of FY 1999 to FY 2005 with a total of 1.993 municipalities merged (ibid.: 18). These efforts brought about a further advance of the urbanization trend with the majority 88,5% of the Japanese living in cities (ibid.: 13). Another effect was the reduction of assembly members, mayors and employees of municipalities (ibid.). The number of mergers is unevenly distributed across Japan. The West shows higher rates of decrease (70% and more) than the East (ranging from 2% to 5%), thus providing further potential for the implementation of mergers (ibid.: 14). A careful examination of the need for the consolidation has to be carried out in order to prevent negative impacts from unnecessary mergers.

4.4. *Municipal Federations and “Super-Prefectures”*

Another form of reorganization on the municipal level is the pattern of federations, a concept that already discussed at the beginning of the 1960s (Jacobs 2004: 248). Municipalities were given the possibility to form so-called „Wide area Federations of Municipalities“ (MFs) through a revision of the Local Autonomy Law in June 1995 (ibid.: 247). The central government wanted to ensure that the municipalities would be able to handle the tasks that it planned to entrust them with (ibid.). MFs are defined, on the basis of Soumusho²⁶ (2002c cited in Jacobs 2004: 248), as “groups of adjacent communities, which join together to form an extralocal governmental body, for the purpose of administering multiple public services to residents in a multi-municipal area”. In contrast to mergers/amalgamations the units engaged

²⁶ Soumusho is the Japanese abbreviation for the MIC.

in a MF keep their autonomy, comparable to the divisions in a federal system. Instead of merging the government bodies to one, a council representing all communities is in charge (ibid.). Jacobs counted 82 MFs covering a total of 759 communities in 31 of the prefectures in September 2002 (ibid.: 250). The majority (79) were initiated locally (ibid.). The prefecture of Nagano, for example, showed a 100% coverage of its 120 municipalities by 10 MFs, whereas the lowest value of 3,6% was observed in Niigata with only one MF comprising 4 of the 111 municipalities (ibid.: 251).

Jacobs' findings show that MFs can be considered as an alternative to mergers in several regards (ibid.: 269). He states that MFs are comparable with merged municipalities concerning the capability of "building local support for national policy", and sometimes even show better values (ibid.). MFs can help pave the way for municipal consolidation and are found to be as efficient in implementing "new services" (related to the health care of elderly people and insurance) as merged units (ibid.). The greatest potential of MFs is seen in "large, sparsely populated regions" as they cost-advantages both in the short and long run (ibid.).

The previous two sections outlined measures to restructure the basis of local government in Japan, namely the municipalities. This chapter will deal with the reorganization of the 'upper level' of the two-tiered local government system. The number of prefectures has been unchanged since the establishment of the "Meiji prefectural system" in 1888 (Muto 2011: 143). But there are certain concepts to reduce it as well and form about 10 units, sometimes called "Super-Prefectures" (Doi and Ihori 2009: 230) because of their potential size and control, under a regional government system (道州制 *dōshūsei*) (Schmidt 2009: 61). Further details are given in Doi and Ihori, Schmidt 2009 or Muto 2011.

4.5. Trinity Reform Package

The Trinity Reform Package focused on the fiscal system of local governments. The intergovernmental distribution of taxes and the LAT functionality, which were outlined in chapter 2.6., play an important role in this regard. The local governments are responsible for roughly 60% of the expenditures but only account for about 40% of the revenues through the local taxes. Thus, a financial equalization is necessary, which is largely achieved by the LAT and national disbursements.

Another approach is to shift the competences to impose taxes rather than to shift part of the tax revenues. As the name may suggest, the Trinity Reform Package included three areas, all aiming at decentralization. Initiated under PM Koizumi the reform plan covered the shift of “tax revenue sources” to local authorities, the revision of “the national treasury subsidies and obligatory shares”, and the LAT (Ikawa 2009: 29). The “Local Tax Law and bylaws” (set up on the central level) determine the level of local taxes imposed, and although local authorities could make changes by separate regulations on their own, this has hardly ever been the case (ibid.: 32). The LAT is the most important general equalization instrument (for calculation and share see chapter 2.6.). The national treasury disbursements are bound to a specific use, be it a project or a certain administrative purpose (ibid.: 33). Especially the system of subsidies was heavily criticized as it limits local “autonomy and independence” and reduces local efficiency and effectiveness (ibid.: 35). Doi and Ihori (2009: 206) stress that the central government was “deeply involved” in the revenue sources of local governments. They further remark that the Trinity Reform affected several stakeholders, giving rise to conflicts about how and how far decentralization should be carried out (ibid.: 207). The local governments were opposed by central ministries, first and foremost the MIC and the MoF (ibid.). Although not as steep as on the national level, the local debts showed an increase since the middle of the 1990s (Ikawa 2009: 34). Doi and Ihori (2009: 207) argue that the lax handling of local expenditures caused the deteriorated local situation. Consequently, an improvement was urgently needed. Interestingly, the Trinity Reform was started by a draft of the “then Minister of Internal Affairs and Communications” Katayama in May 2002 (Ikawa 2009: 37). The principle thought of his proposal was to transfer 50% “of the difference between national and local taxes”, i.e. seven trillion Yen (about 60,6 billion Euro or roughly 55 billion US Dollar), in order to reach a ratio of 1:1 (local/national taxes (ibid.)). In June 2002 the “Basic policies for economic and fiscal management and structural reform 2002”, short “Basic policies for 2002”, were enacted (ibid.: 38). The following years brought subsequent basic policies and a number of reform plans and agreements “between the government and the ruling parties” over the Trinity Reform (ibid.).

In the period from FY 2003 to 2006 the government reduced the amount of grants and increased the local revenues at the same time, in accordance with the annually endorsed “basic policies” and the agreements (Council of Local Authorities for International Relations 2008: 22). The “personal income tax” was reduced on the central level, while it was

increased by the same value on the “local level” (Doi and Ihori 2009: 206). The calculation of the LAT was simplified and the number of “non-granted bodies”, i.e. local units that do not receive LAT funds, was increased (Council of Local Authorities for International Relations 2008: 23). The considerable amount of national treasury disbursements was either changed into grants or completely abolished (a total of 4,666 trillion Yen, equalling about 34,19 billion Euro or 42,28 billion US Dollar) from FY 2004 to FY 2006 (Ikawa 2009: 47).

In general, the Trinity Reform did not receive high evaluation ratings by local government officials as it failed to fulfil the expectations of increases in the local independence and autonomy (ibid.: 13). In certain cases even the contrary was true. The reduction of the LAT posed difficulties to local authorities in the management and execution of “their financial, administrative and political policies” (ibid.). Features that were highly evaluated included the transfer of three trillion Yen to local governments in terms of “tax revenue sources”, the formation of a round-table for intergovernmental discussions, and the degree of “consolidation and rationalization” (ibid.). The main criticism is expressed about the one-sided focus on fiscal soundness rather than on the promotion of decentralization (ibid.). Nevertheless, the intentions of the Trinity Reform were further pursued by the “Basic policies for economic and fiscal management and structural reform 2006”, aiming at fiscal soundness in a three-phase concept (ibid.: 14). The first stage was designed to end with FY 2006, the second was scheduled from FY 2007 “to the beginning of the 2010s”, and the third was planned for the period until the middle of the 2010s (ibid.).

As the local governments demand for more autonomy and responsibilities on the one hand, and the central government being forced to transfer some of its power and functions to the subordinated levels, the fiscal circumstances have to be improved on a continuous basis. This improvement has to be pursued with the same emphasis as the devolution of competences. Otherwise, the local authorities will not be able to fulfil their duties in a sustainable and suitable manner for their citizens.

5. Conclusions and Outlook

The results gained throughout this thesis show that the Japanese government is rather small on an international scale. The majority of public employees are engaged on the local level, with both the central and local authorities continuously trying to decrease their number of staff members. The public sector shows some interesting characteristics that have been useful in the past, especially in the decades of economic recovery after the end of World War II. The bureaucracy and its relations to other important players such as businesspersons and politicians serve as a good example in this regard. But with changing circumstances in terms of international economic conditions they have been constantly losing their legitimization. In order to adapt to the changing economic environment and challenges emerging from fundamental demographic developments (ageing population, declining birthrates) the Japanese government has, as many others, initiated and implemented various reforms.

Administrative reforms are seen as a prerequisite for all other reforms, one would thus think that the government would carry them out with the utmost vigour. In fact, the government has achieved to implement principles of the New Public Management approach, namely the establishment of Independent Administrative Institutions and the implementation of Policy Evaluation Systems in the course of its central government reform in 2001. In addition, privatization efforts were made. Concerning the intergovernmental relations decentralization was put on the agenda, with some prominent endeavours like the Trinity Reform, initiated by PM Koizumi. The government achieved a certain degree of consolidation on the municipal level with its incentives for municipal mergers.

Still, there are several causes for concern. First of all, the government (especially on the national level) lacked a system of interim evaluation for a long time, with the instrument of policy evaluation only implemented about ten years ago. In other words, the results of measures taken were barely compared to any kind of benchmark. Wavelike movements, induced by a trial-and-error-based approach, rather than by consequence and assertiveness characterize the efforts of both administrative reform and decentralization. Secondly, as a rule, the process of change, i.e. reform, was initiated by symptoms of shortage and as an answer to pressure from outside the system. There is an intrinsic motivation to improvement

for sure, but it is often superposed by the intention to keep to the well-tried concepts as long as possible, even if in sum it would have been better to abandon the “old-fashioned” way at an earlier point. The same attitude has been observed in the aftermath of the bubble burst, in particular towards the end of the 1990s, when the government preferred to implement a number of economic stimulus packages of several trillions of Yen rather than to decide on far-reaching measures to restructure certain ailing parts (especially within the banking sector). It must be noted here, that no one can say for sure what would have happened if different measures would have been taken, but the outcome that was produced leaves much room for improvement.

In general, the Japanese government seems to shy away from extreme actions and the public rarely demands for them. In the rare cases when those measures could be pushed through (e.g. the privatization of the Japan Post), a complete reverse is still possible, proving the lack of consistency and continuity. In addition, the responsible organs, as for example the Prime Minister, often lack the ability to push through unpopular measures, as they are not backed by solid support, neither from within their party, nor from industry, labour unions, or the public. Over and above these facts, the bureaucracy still has considerable power and is essentially involved in fundamental questions such as decentralization, thus being in the position to weaken the impact of reforms. Consequently, many of the initially radical measure wind up as softened versions. The third point can be illustrated with the help of the initiatives taken towards the promotion of e-government, which uncover another characteristic of the Japanese reform efforts, namely the tendency of window-dressing instead of showing real benefits for citizens' welfare. Information provided by the government often comes with the connotation of an image campaign.

The government should therefore, in the short-run, focus on achieving greater public awareness for essential issues such as the enormous amount of public debts and the need to cut expenditures by any means. Another aim that should be achieved as soon as possible is a stronger position for the PM in order to be able to pursue certain unpopular measures without being replaced after one year latest. In the short- to medium-run the central government should implement a proper system of subsidiarity, giving the local governments resources and power, and above all trust, to tackle their problems on their own, thereby helping to improve

the overall conditions. Unless the central government is willing to allow for a real transfer of competences decentralization and its benefits will not be achieved.

The answer to the research question thus is: Yes, public administration and decentralization in Japan will benefit from continuous reform, but only if the central government finally realizes that it has to fully implement the actions proposed by several advisory bodies kind of throughout the last decades without any exemption clauses and it has to fully implement a decentralized system with the local governments as its equal partners instead of using them as mere vicarious agents.

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APPENDIX

Abstract

This thesis deals with the Japanese administrative reforms and decentralization efforts of the last few decades. It outlines the general structure of the central government and its relation to the subordinated local levels of prefectures and municipalities.

The public sector is rather small in terms of employment and GDP share compared with other OECD countries. The public debts, in contrast, show an alarmingly high value of about 200% of the Japanese GDP, by far the highest figure in the OECD comparison. Consequently, the Japanese government has initiated several reform efforts during the last decades. The most prominent are named after the Prime Ministers who launched them.

The Nakasone Reform in the 1980s focused on the privatization on major public corporations. The privatization of the Japan National Railways is described in further detail and serves as an example for the 1980s privatizations. The Hashimoto Reform in the 1990s covered a whole range of reform contents, including the streamlining of central ministries, the promotion of decentralization, the establishment of Independent Administrative Institutions, and the implementation of Policy Evaluation Systems as part of the New Public Movement in Japan as described in this thesis. The Koizumi Reform in the 2000s dealt with the controversial privatization of the Japan Post and the fiscal decentralization, both of which are presented in the course of this thesis.

A separate chapter is dedicated to the local governments and their struggle for more power. Decentralization is discussed as a theoretical concept and its implementation in Japan in the form of several phases of decentralization reform. Although the central government has continuously tried to promote the advance of decentralization it seems as if it is not fully convinced of this concept, as a certain back-and-forth-strategy can be observed in this context. It has, however, offered some incentives for municipalities to merge and thereby realize benefits for themselves, but also for their residents in terms of better provision of services.

All in all, however, the continuous reform efforts will only create benefits for public administration and decentralization in Japan in the long run if the government fundamentally modifies its approach towards the awareness and solution of problems.

KEYWORDS: administrative reform, decentralization, public administration, benefits, Japan

Zusammenfassung

Die vorliegende Diplomarbeit befasst sich mit den Bemühungen der japanischen Regierungen der letzten Jahrzehnte in den Bereichen der Verwaltungsreformen und Dezentralisierungsmaßnahmen. Sie bietet einen Überblick über die grundlegende Struktur der zentralen Regierungseinrichtungen und deren Beziehung zu den nachgeordneten lokalen Ebenen der Präfekturen und Gemeinden.

Der öffentliche Sektor ist relativ klein im Vergleich zu anderen OECD Staaten gemessen an der Anzahl an öffentlich Beschäftigten und dem Anteil am Bruttoinlandsprodukt. Mit einer Staatsverschuldung von alarmierenden hohen 200% des Bruttoinlandsprodukts zeigt Japan mit Abstand den höchsten Wert im OECD-Vergleich. Entsprechend hat die japanische Regierung in den letzten Jahrzehnten mehrere Versuche unternommen auf diese Situation zu reagieren. Die bekanntesten und umfangreichsten Bestrebungen wurden nach den Ministerpräsidenten benannt, durch die sie in Gang gebracht wurde.

Die Reformbemühungen der 1980er waren geprägt von Premier Nakasone, der seinen Fokus auf die Privatisierung großer Staatsunternehmen in den Bereichen Bahn, Telekommunikation und Tabakmonopol legte. Beispielhaft wird aus diesem Abschnitt die Privatisierung der japanischen Staatsbahnen näher beschrieben. Die 1990er standen ganz im Zeichen von Hashimoto Ryūtarō, der während seiner Amtszeit die Reform der Zentralregierung initiierte und damit einhergehend die Anzahl der Ministerien verkleinerte, Selbstverwaltungskörperschaften etablierte und Systeme der „Policy Evaluation“ einführte. Zudem wurden die Dezentralisierungsvorhaben weiter vorangetrieben. Stellvertretend für die

Reformanstrengungen der Koizumi-Regierung werden die umstrittene Postprivatisierung und die Umsetzung der fiskalischen Dezentralisierung im Rahmen der „Trinity Reform“ beschrieben. Ein eigenes Kapitel ist der lokalen Ebene gewidmet, wobei besonderes Augenmerk auf den Kampf um mehr Macht und Kompetenzen gelegt wird. Dezentralisierung als theoretisches Konzept und dessen Umsetzung in Japan werden anhand von fünf Phasen seit 1945 dargestellt.

Obwohl die Zentralregierung kontinuierlich ihre Dezentralisierungsvorhaben vorantreibt scheint sie gleichzeitig nicht vollständig von diesem Konzept überzeugt zu sein, worauf eine gewisse vor-und-zurück-Strategie schließen lässt. Nichtsdestotrotz wurden den Gemeinden Anreize für eine Zusammenlegung geboten um auf der einen Seite selbst davon zu profitieren und auf der anderen Seite bessere Dienstleistungen für die ansässigen BürgerInnen bieten zu können.

Zusammenfassend ist zu sagen, dass die öffentliche Verwaltung und die Dezentralisierungsbestrebungen nur dann zur Gänze und langfristig von den kontinuierlich durchgeführten Reformen profitieren werden wenn die Regierung ihren Zugang zu Problembewusstsein und –lösung fundamental ändert.

SCHLAGWÖRTER: Verwaltungsreform, Dezentralisierung, öffentliche Verwaltung, Vorteile, Japan

Curriculum Vitae

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- *Interdisziplinäre Projektstudie* „Potentials of the Danube Strategy for a sustainable development in Central and Eastern Europe”
 - *Bachelor Seminararbeit* “Sustainable Development Criteria under the Clean Development Mechanism in Brazil”
- 2006-2012 div. Praktika und Berufserfahrung in den Bereichen Bankwesen, Marketing und öffentliche Verwaltung
- 2005 AWO Außenhandelsstelle Tokyo: Volontariat (Oktober/November)
- 2002-2004 Lehrveranstaltungen der Japanologie an der Universität Wien
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